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Department for Transport

Resource Accounts
2006-07

(For the year ended 31 March 2007)

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Contents

Annual Report

Resource Accounts: Department for Transport

Scope

Entities consolidated

The Annual Report and Accounts present the consolidated results for the year ended 31 March 2007 for the following entities:

Department for Transport, and
- Highways Agency;
- Maritime and Coastguard Agency;
- Government Car and Despatch Agency; and
- Vehicle Certification Agency.

A list of bodies included and those excluded from consolidation is set out in Note 36 to the accounts.

Departmental reporting cycle

The Department published its *Annual Report 2007* on 17 May 2007. The Report provides a comprehensive review of the Department for Transport and its reporting bodies, and gives detailed information on the Department’s activities in 2006-07 and the following financial information:
- outturn for 2005-06;
- estimated outturn for 2006-07; and
- expenditure plans for 2007-08 and 2008-09.

Management Commentary

The Department for Transport is a central government department. The main role of the Department and its agencies is to implement government transport policy and to advise Ministers. In order to achieve this, it also works alongside the devolved administrations, local authorities, non-departmental public bodies and other government-sponsored organisations. Most of its resources are provided by Parliament, which votes funding on an annual basis in the context of HM Treasury’s Spending Reviews. It provides grant funding to local government (including the Greater London Authority), Network Rail, and other entities that deliver major projects. It contracts with train-operating and freight companies to provide rail services on a franchised basis, maintains and improves motorways and major trunk roads and develops and implements the Government’s maritime safety and environmental protection strategy.

Aims

The aim of the Department is 'transport that works for everyone'. To that end, the Department works in partnership with others to tackle congestion, improve accessibility, reduce casualties, respect the environment and support the economy.

Good transport links to ease the movement of people and goods are vital to a successful and growing economy. The Department for Transport plays a key role in meeting these demands by providing the strategy and framework for transport services and by planning for future transport needs.

Strategic Plans

The Department published *Transport 2010: The 10-Year Plan* in July 2000. In December 2002, the Department reported on progress towards delivery of the plan, in *Delivering Better Transport: Progress Report*.

The Department’s strategy, set out in a White Paper *The Future of Transport: a network for 2030* examined the factors that will shape travel, and transport networks, over the next thirty years. It set out the government’s response to those pressures, safeguarding economic and social well-being and the environment. It builds on the progress made since the implementation of the *10-Year Plan* and extends the Department's investment plans to 2014-15.

The strategy is built around three central themes.

- **Sustained investment**. The government is committed to delivering sustained improvements to transport networks. The Department will increase its spending by an annual average of 4.5 per cent in real terms between 2005-06 and 2007-08. This includes an additional £1.7bn transport reform package for the railways, over and above the *10-Year Plan* provision. The *10-Year Plan* spending will also increase by £0.5bn each year from 2006-07. This higher level of spending is planned to grow in real terms by 2.25 per cent each year, to 2015. Meanwhile, the other reforms being put in place will ensure that each £1 of investment works harder for the British taxpayer.

- **Improvements in transport management.** The Department has reorganised the rail industry with an aim to improve performance and get better value from public spending. The *Railways Act 2005* put in place a structure within which the government sets the strategy and reviews public expenditure. Better traffic management will help to ease congestion on roads. Where additional road capacity is needed, it will be provided. The Department will ensure that the benefits of new capacity are maximised by introducing tolling and high-occupancy vehicle lanes, where they make sense.
- **Planning for the long term.** The Department will advance the debate about a national system of road pricing, focusing on how to deliver an effective national system. It will work to ensure that the choices faced, together with their full costs and benefits, are well understood. The Department is committed to sharing decision-making with regional and local stakeholders, and to ensuring that regional and local planning is based on a shared view of priorities, deliverability and affordability. The Department will ensure that transport decisions are taken alongside those for housing and economic growth.

Key objectives

To deliver its strategy, the Department has a set of objectives and targets. The most important are included in the Department's Public Service Agreement (PSA), established in the Spending Review 2004. Objectives relating to the full range of the Department's business, including PSA targets, were published in the business plan *Delivering Better Transport: Priorities for 2005-06 to 2007-08*. These objectives are underpinned by the Department's PSA targets. They express the significant elements of the objectives as specific and measurable performance benchmarks. The Department's objectives and associated PSA targets for the year were as follows.

Objective 1 - Support the economy through the provision of efficient and reliable inter-regional transport systems by making better use of the existing road network; reforming rail services and industry structures to deliver significant performance improvements for users; and investing in additional capacity to meet growing demand.

> **PSA 1 Target:** By 2007-08, make journeys more reliable on the strategic road network.
>
> **PSA 2 Target:** Improve punctuality and reliability of rail services to at least 85 per cent by 2006, with further improvements by March 2008.

Objective 2 - Deliver improvements to the accessibility, punctuality and reliability of local and regional transport systems through the approaches set out in Objective 1 and through increased use of public transport and other appropriate local solutions.

> **PSA 3 Target:** By 2010, increase the use of public transport (bus and light rail) by more than 12 per cent in England compared with 2000 levels, with growth in every region.
>
> **PSA 4 Target:** By 2010-11, the 10 largest urban areas will meet the congestion targets set in their local transport plan relating to movement on main roads into city centres.

Objective 3 - Balance the need to travel with the need to improve quality of life by improving safety and respecting the environment.

> **PSA 5 Target:** Reduce the number of people killed or seriously injured in Great Britain in road accidents by 40 per cent and reduce the number of children killed or seriously injured by 50 per cent, by 2010 compared with the average for 1994-98, tackling the significantly higher incidence in disadvantaged communities.
>
> **PSA 6 Target:** Improve air quality by meeting the seven Air Quality Strategy targets. These are shared with the Department for Environment, Food and Rural Affairs (DEFRA).
>
> **PSA 7 Target:** To reduce greenhouse gas emissions to 12.5 per cent below 1990 levels in line with our Kyoto commitment; and move towards a 20 per cent reduction in carbon dioxide emissions below 1990 levels by 2010, through measures including energy efficiency and renewables. This target was adopted in SR2004. Target shared with DEFRA and the Department for Trade and Industry.

Objective 4 - Improve cost-effectiveness through sound financial management, robust cost control, and clear appraisal of transport investment choices across different modes and locations. There are no PSA targets for this objective.

Overall summary of performance against PSA targets:

- **PSA 1 Overview:** – A new target for journey reliability on the strategic road network, based on the 10 per cent slowest daytime journeys. Performance has deteriorated against the baseline target set in 2005-06. The Highways Agency is working on a full range of interventions that will contribute to the delivery of the target in 2007-08.
- **PSA 2 Overview:** – Rail performance in all sectors has continued to improve. Punctuality and reliability is at the highest level for six years. In terms of distance travelled, more people are using the railways than at any other time in the last 60 years.
- **PSA 3 Overview:** – There has been an overall increase of bus and light rail usage, with accessibility and reliability of bus services continuing to improve. The picture is regionally mixed. Patronage continued to increase in London, though outside the capital, bus use has declined in most regions. However, slight increases in patronage in three regions (Yorkshire and the Humber, East Midlands and South East) may suggest that a corner has been turned. Challenging patronage targets have been set in every region to help achieve the overall target and ensure increases across the country by 2010.
- **PSA 4 Overview:** – A new target to reduce congestion on main roads in the 10 largest urban areas. The baseline was published in 2006-07.
- **PSA 5 Overview:** - Our roads are becoming safer. There has been the lowest level of deaths on the roads since records began. The target to tackle the significantly higher incidence of road casualties in disadvantaged communities has been met.
- **PSA 6 Overview:** Although only four out of our seven Air Quality targets are currently being met, the long term trend is of improving air quality. A review of the Air Quality Strategy is under way, and together with DEFRA we are considering possible additional measures to move towards meeting the targets.
- **PSA 7 Overview:** We are on course to do more than meet the Kyoto target, and we are endeavouring to make progress towards meeting the demanding national goal of a 20 per cent reduction in carbon dioxide emissions below 1990 levels by 2010.

	How the target is measured	**2006-07 Performance**	**2005-06 Performance**	**2004-05 Performance**
PSA 1	Measuring the delay between an observed journey time and a reference journey time (that could be theoretically achieved when the traffic is free-flowing) on the 10% slowest journeys.	3.99 minutes delay per 10 miles	Baseline published as 3.78 minutes delay per 10 miles	N/A
PSA 2	Measuring the percentage of passenger services that arrive on time (within 5 minutes of the timetabled arrival or 10 minutes for long-distance services) of all services, including total and partial cancellations. This measure is known as the Public Performance Measure). Target is 85%	88.0% (March 2007)	86.4% (March 2006)	82.8% (December 2004)
PSA 3	Measuring the increase of passenger numbers on bus and light rail services compared to year 2000 levels.	Increase of 8.1% (though declining in some regions)	Increase of 7.7% (though declining in some regions)	Increase of 6.3% (though a net decline outside of London)
PSA 4	The target will be deemed to be met if, on target routes in the ten largest urban areas in England, an average increase in travel of 4.4% is accommodated with an average increase of 3.6% in person journey time per mile.	Baseline published	N/A	N/A

	How the target is measured	2006-07 Performance	2005-06 Performance	2004-05 Performance
PSA 5	a) Reduction of people killed or seriously injured in road accidents below the 1994-98 average (target 40% by 2010) b) Reduction of children killed or seriously injured in road accidents below the 1994-98 average (target 50% by 2010) c) Reduction of the number of people killed or seriously injured in the 88 Neighbourhood Renewal Fund areas (disadvantaged communities) since the baseline period 1999-2001, compared against the fall in England as a whole.	a) 33% reduction b) 52% reduction (2005 data reported June 2006) c) 19% reduction (England fall of 15%) (2005 data)	a) 28% reduction b) 43% reduction (2004 data reported June 2005) c) 15.8% reduction (England fall of 12.3%) (2004 data)	a) 22% reduction b) 52% reduction (2003 data reported June 2004) c) 10.6% reduction (England fall of 9%) (2003 data)
PSA 6	Improve air quality by meeting national objectives for: • carbon monoxide; • lead; • nitrogen dioxide (NO_2); • particles (PM_{10}); • sulphur dioxide (SO_2); • benzene; and • 1,3- butadiene	4 out of 7 national objectives were met	4 out of 7 national objectives were met	4 out of 7 national objectives were met
PSA 7	a) Reduce greenhouse gas emissions to 12.5% below 1990 levels in line with our Kyoto commitments b) Move towards a 20% reduction in carbon dioxide emissions below 1990 levels by 2010.	a) Kyoto target is on track b) Latest projections show a 16.2% reduction by 2010	a) Kyoto target is on track b) Data not available	N/A

The above table shows headline performance against the Department's PSA targets. A more detailed analysis of the Department's performance, including performance at regional levels where applicable, is given in the Department's *Annual Report*. This is available via the Department's website, at the following address: http://www.dft.gov.uk/about/publications/apr/

Financial performance

a) 2006-07 compared to 2005-06

The Department's expenditure against each objective is shown in the Statement of Net Operating Costs by Departmental Aim and Objectives (page 25). The net total of expenditure was £13.68bn, an increase of £1.74bn or 14.6 per cent on the previous year's total of £11.94bn. This increase was recognised within the Estimates for 2006-07. A detailed analysis of expenditure by section is given in Note 2. Expenditure for each section is allocated between objectives. Work of sections may be apportioned to two or more objectives, because the activities they reflect may contribute to the achievement of multiple objectives. Significant changes and elements of those changes are as follows.

Objective 1
The net total of expenditure for Objective 1 was £7.15bn, an increase of £1.02bn or 16.5 per cent on the previous year's total of £6.13bn. Expenditure on railways (Note 2 sections L, AI, AJ & AM) increased by £0.59bn. This is largely due to increased payments to train operating companies in line with franchise agreements. Overall expenditure on Highways Agency (sections E & AH) increased by £0.44bn, of which 48 per cent is allocated to this objective. This is largely made up of an increase in provisions related to tunnels of

£0.14bn, an increase in cost of capital of £0.14bn due to a higher value of the road network and an increase of £0.11bn due to the annual adjustment to the value of road construction schemes. Of the remaining £0.21bn, the majority relates to increases in other grants (sections AE & AF), including Crossrail, and new grants, including the Communities Infrastructure Fund.

Objective 2
The net total of expenditure for Objective 2 was £3.18bn, an increase of £0.49bn or 18.2 per cent on the previous year's total of £2.69bn. Grants to the Greater London Authority (AC and AD) increased by £0.46bn, reflecting the recognition of a £0.37bn provision for grants payable in respect of Transport for London's contributions to the London Regional Transport pension fund (see Note 21(ii)).

Objective 3[1]
The net total of expenditure for Objective 3 was £3.28bn, an increase of £0.26bn or 8.6 per cent on the previous year's restated total of £3.02bn. Overall expenditure on Highways Agency (sections E & AH) increased by £0.44bn (see Objective 1), of which 51 per cent is allocated to this objective.

Objective 4[1]
The net total of expenditure for Objective 4 was £0.08bn, which represents 0.6% of total net operating costs.

[1]Following a review by the Driver and Vehicle Operator Group it has been determined that work carried out by this group properly falls into Objective 3, though was previously allocated to Objective 4. For comparative purposes, the 2005-06 figures have been restated, Note 37.3 shows details of the restatement.

b) 2006-07 Outturn versus Estimate

The Net Resource Outturn reported in Note 2 was £13.71bn, which is £251m or 1.8 per cent below the Estimate of £13.96bn The material components of this underspend by Estimate section are explained below:

E: £33m underspend - Highways Agency

This represents 1.4% of a resource budget of £2,398m. Of this underspend £6.9m was income received in respect of M6 toll recoveries, which was not anticipated in the Estimate. The balance was a result of small underspends across the thousands of projects that the Agency undertakes and manages prudently.

L: £40m underspend - Railways
Of this underspend, £22m is due to grant payments to Cross London Rail Links Limited being lower than anticipated in the Estimate, £15m is related to expected subsidy payments to British Railways Board (Residuary) Limited (BRBR) not being made due to higher than anticipated receipts from property sales by BRBR that they were able to use in place of the subsidy.

O: £30m underspend - Bus Service Operators Grant
Actual expenditure was lower than expected due to the deferral of the introduction of the increase in fuel duty announced in the March 2006 Budget Statement until September 2006. This resulted in subsequent claims for Fuel Duty Rebate being lower than anticipated in the Estimate.

AE and AF: £56m underspend - Other transport grants (resource); and Other transport grants (capital)
The Estimate is set based on the prudent assumption that local authorities will complete grant funded activities within the accounting period. There has been a lower than expected level of grant take-up and some delays in local authorities' work performance on transport related projects.

AJ: £20m overspend - Grant in Aid funding of non-departmental public bodies and public corporations
This is due to additional working capital requirements by British Transport Police and additional payments to London and Continental Railways Limited relating to the Kings Cross development.

AM: £51m underspend - Railways
Pension accounting rules under *FRS 17* require a pension scheme's assets and liabilities to be valued as at the balance sheet date introducing an inherent degree of volatility in the employer's accounts. The budget cover taken at the Spring Supplementary Estimate was a prudent measure, as the pension assets and liabilities were not to be valued by the Government Actuary's Department (GAD) until after the year end. In the event, the GAD valuation showed that the Department's net pension liability had fallen significantly during the year following a positive stock market performance resulting in a large credit rather than charge to the Resource Accounts.

The remaining difference of £61m relates to various underspends from other sections.

Financial position

During the year, the Department's net assets increased by £6.46bn. The Department's largest asset remains the strategic road network. Improvements to the road network are typically financed either directly (97.6 per cent of fixed assets by net book value are financed in this way) or via the Private Finance Initiative (PFI). To maximise value for money, the Department retains significant construction risks in relation to its strategic road PFI schemes: hence, they are generally recognised as being on the Department's balance sheet. During the year, the value of the road network increased by £6.04bn, largely due to net revaluation gains of £5.73bn.

The Channel Tunnel Rail Link is owned, managed and operated by the London and Continental Railways group of companies, which is deemed to have the risks and rewards of ownership of that facility. The Department has financed the Link's construction through a package of grants and guarantees. Further details are given in Note 29, 31 and 32 to these Accounts.

External stakeholders

The Department works with other government departments to achieve its objectives, and the wider objectives of the government, such as crime reduction and social inclusion. It works with European Union partners to promote the development of efficient and competitive transport.

Social responsibility and community relations

The Department continues to work to demonstrate more accountability and responsiveness to society. In the second year of the operation of *The Freedom of Information Act 2000*, which ended on 31 December 2006, the Department met the target deadlines for responses in 91 per cent of the 1,178 cases it received (*2005: 87 per cent of 1,519 cases)*. Responses of wider public interest have been published on the Department's web site. The Department is working to reduce regulatory and enforcement burdens and, in December 2006, published a comprehensive simplification plan, *Transport: Lightening the Load,* on its web site. The Department has also produced and implemented an Equality Impact Assessment Toolkit to support the delivery of its disability, race and gender equality duties, so that potential adverse impacts of policy and operations can be anticipated and addressed.

Significant remote contingent liabilities

Government departments are required to report specifically on contingent liabilities arising from guarantees and letters of comfort. The Department is reluctant to offer such guarantees. It has, however, provided them where they would benefit the taxpayer, and where the benefits outweigh the disadvantages. The two situations in which this has occurred most significantly are to support private sector borrowing by Network Rail Limited and London and Continental Railways Limited, and to encourage rail franchisees to invest in new facilities, which would last beyond the franchise terms. Further disclosures are given in Note 32 of these accounts.

Significant events affecting performance this year

There have been significant developments in the re-letting of rail passenger franchises. The West Coast Main Line franchise has been renegotiated, giving the franchisee greater operational independence, after a period during which services were operated under a letter agreement. Invitations to tender for the new East Midlands, West Midlands and Cross Country franchises have been issued. Work has continued on modernising the West Coast Main Line as part of a programme of works that will continue until 2012. Section 2 of the Channel Tunnel Rail Link is nearly complete and is due to open in 2007-08.

Financial problems in the early months of the Inter City East Coast franchise, (let to Great North Eastern Railway Limited (GNER) in February 2005), led to the negotiation of a management agreement in Autumn 2006 that facilitated the ongoing operation of the franchise by GNER under revised financial arrangements, pending its re-letting. The re-letting process is underway and expected to be concluded during 2007-08.

A review of the Highways Agency's approach to cost estimating and project management by Mike Nichols, Chairman and Chief Executive of the Nichols Group, was published in March 2007 and the Department has accepted its recommendations (the report is available on the Department's web site). As part of the active traffic-management scheme on the M42 near Birmingham, the Highways Agency successfully introduced in September 2006 controlled use of the hard shoulder as a running lane during congestion or incidents. The scheme is being monitored to assess its benefits.

Significant events affecting future performance

Sir Rod Eddington's report *Transport's Role in Sustaining the UK's Productivity and Competitiveness* was published in December 2006 and is likely to be a significant influence on the Department's long-term objectives. It recommended that the Department should prioritise initiatives that enable more efficient use of the existing transport infrastructure, such as those that encourage travel outside of peak periods.

During the year, the Department began the procurement process for Intercity Express, the replacement for the existing high speed train fleet and the UK's most significant investment in rolling stock for thirty years. In addition, it was announced in March 2007 that the High Level Output Specification (HLOS) would include a commitment to a thousand extra carriages for use on the most congested parts of the rail network (more details are available on the Department's web site).

Public Interest

Equal opportunities and recruitment

The Department is an equal opportunities employer. All staff have a right to equality of opportunity in all aspects of employment and to a working environment free from harassment, bullying and victimisation, irrespective of race, ethnic or national origin, age, religion, sex, gender identity, marital status, disability, sexuality, working hours, union membership, union office or union activity. The Department has Equality Schemes in place to remove all forms of unfair discrimination and to promote mainstream diversity in policy making and delivery. Details of the Gender and Disability Equality Schemes published in the year, together with the Race Equality Scheme published earlier are on the Department's web site. The Department recruits staff on the basis of fair and open competition. Selection is on merit and in accordance with the guidance laid down in the *Civil Service Commissioners Recruitment Code*.

Staff relations

The Department encourages staff involvement in all of its activities. It encourages personal development through appropriate training, secondments and attachments. Staff have access to counselling and support services, and trade union membership and representation. There are also formal communication channels between management and trade union representatives through the Whitley Council.

Payment of suppliers

The Department's policy is to comply with the *Prompt Payment Code*. In line with the rest of Government, the Department (including its Executive Agencies) works toward paying 98 per cent of valid undisputed bills on time (within 30 days of the date of receipt of the invoice or within the contractual term, if less). In 2006-07, the Department paid 98.38 per cent (*2005-06: 98.71 per cent*) of bills on time.

Environmental policy

The Department's aim is reliable, safe and secure transport that works for everyone and which respects the environment. The Department is committed to reducing, on a cost-effective basis, the environmental impact of its operations. It conducts its activities and operations to reflect best environmental practice and is working towards the implementation of environmental management systems to pursue sustainability, continual improvement and the prevention of pollution. The policy can be viewed on the Department's web site.

Euro preparations

Government policy on entry to the Euro continues to be "prepare and decide", thereby ensuring that the UK retains a genuine option to join the single currency if the Government, Parliament and the people, in a referendum, decide to do so. The Department has developed and maintained its changeover plan in accordance with HM Treasury's requirements.

Auditors

The audit of the Department's accounts, including the audit of the Agencies, is carried out by the Comptroller and Auditor General under the *Government Resources and Accounts Act 2000* at an annual notional cost of £800,000.

The National Audit Office also performs other statutory audit activity, including value for money and assurance work, at no cost to the Department.

Reconciliation of resource expenditure between Estimates, accounts and budgets.

	Page	2006-07 £000	2005-06 £000
Net Resource Outturn (Estimates)	22	13,713,326	12,043,381
Adjustments to additionally include:			
Consolidated Fund Extra Receipts in the Operating Cost Statement	34	(28,967)	(98,992)
Net Operating Cost (Accounts)	23	**13,684,359**	**11,944,389**
Adjustments to remove:			
Capital grants to local authorities		(269,669)	-
Voted expenditure outside the budget		(3,649,185)	(4,936,300)
Adjustments to additionally include:			
Resource consumption of non departmental public bodies		464,181	196,252
Other adjustments		4,246	286,763
Resource Budget Outturn (Budget)		**10,233,932**	**7,491,104**
of which			
Departmental Expenditure Limit (DEL)		7,478,798	5,614,039
Annually Managed Expenditure (AME)		2,755,134	1,877,065

Remuneration Report

Remuneration policy

The remuneration of senior civil servants is set by the Prime Minister, following independent advice from the Review Body on Senior Salaries.

The Review Body also advises the Prime Minister from time to time on: the pay and pensions of Members of Parliament and their allowances, on Peers' allowances, and on the pay, pensions and allowances of Ministers and others whose pay is determined by the *Ministerial and Other Salaries Act 1975*.

In reaching its recommendations, the Review Body is to have regard to the following considerations:

- the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities;
- regional/local variations in labour markets and their effects on the recruitment and retention of staff;
- government policies for improving public services, including the requirement on departments to meet the output targets for the delivery of departmental services;
- the funds available to departments as set out in the government's departmental expenditure limits; and
- the government's inflation target.

The Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations. Further information about the work of the Review Body can be found on the Office of Manpower Economics web site www.ome.uk.com.

The Prime Minister's decisions on Senior Civil Service (SCS) remuneration are sent to the Department by the Cabinet Office. Annual pay review decisions for individual members of the SCS in the Department are then taken by the Department's SCS Remuneration Committee within the key pay parameters communicated by the Cabinet Office.

Pay system and performance management

The Department has three levels of senior civil servant below the Permanent Secretary. The levels are underpinned by a tailored job evaluation scheme (JESP - Job Evaluation for Senior Posts), which provides a consistent basis for comparing the relative value of jobs within and across departments. Each of these three levels has a pay range. Movement within the pay range is determined through a pay matrix, which provides the largest increase to the best-performing but lowest paid staff.

Each year, each member of the SCS is allocated to a performance tranche, as follows:

- Tranche 1 – the top 25 per cent;
- Tranche 2 – the middle 65 to 70 per cent; and
- Tranche 3 – the bottom 5 to 10 per cent.

The decisions on tranche are based on an assessment of contribution relative to others operating broadly at the same level and reflect:

- the individual's overall growth in competence;
- the challenge associated with their job; and
- confidence in the individual's future performance based on sustained past performance.

Individuals are also considered for a bonus, which aims to reward in-year performances in relation to agreed objectives, or short-term personal contributions to wider organisational objectives. There is a limit set on the overall value of bonuses that the Department may award, the number of staff who can receive them and the maximum individual value.

Tranche and bonus decisions are monitored by gender, ethnicity, disability and working pattern to guard against bias.

Remuneration Committee

The Remuneration Committee is comprised of the Department for Transport's Permanent Secretary (as Chairman), all Director Generals, the Chief Executive of the Highways Agency and a Non-Executive Board member. For the period to 31 March 2007, its members were:

Sir David Rowlands	Permanent Secretary - Department for Transport
Stephen Hickey	Director General - Driver, Vehicle and Operator Group
Simon Webb	Director General - Delivery and Security Group
Robert Devereux	Director General - Road Transport, Aviation and Shipping Group
Mike Mitchell	Director General - Rail Group
Archie Robertson	Chief Executive - Highways Agency
Ann Hemingway	Non-Executive Director - Department for Transport

The Committee makes pay decisions for Directors and Divisional Managers. Decisions on pay for Director Generals are taken by the Permanent Secretary, with advice from Ann Hemingway, the Committee's Non-Executive Director.

Service contracts

Civil Service appointments are made in accordance with the *Civil Service Commissioners' Recruitment Code*, which requires appointment to be on merit on the basis of fair and open competition but also includes the circumstances under which appointments may otherwise be made.

Unless otherwise stated below, the officials covered by this report hold appointments that are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Official	**Current contract and unexpired term**
Archie Robertson	24 November 2006 to 23 May 2008 Unexpired term = 14 months
Mike Mitchell	03 May 2005 to 02 May 2008 Unexpired term = 13 months

Both Archie Robertson and Mike Mitchell are subject to the termination agreements/notice periods as laid out in the standard Senior Civil Service contract for fixed term appointments.

No significant awards have been made to senior managers on departure in 2006-07.

Further information about the work of the Civil Service Commissioners can be found at the following web site www.civilservicecommissioners.gov.uk.

Salary and pension entitlements

The following sections provide details of the remuneration and pension interests of Ministers and members of the Board. These sections of the Remuneration Report have been subject to audit:

Remuneration

Ministers	**2006-07**	**2005-06**
	£	**£**
Rt Hon Alistair Darling MP – Secretary of State (to 8 May 2006)	7,249	74,902
Rt Hon Douglas Alexander MP – Secretary of State (from 8 May 2006)	68,642	-
Stephen Ladyman MP – Minister of State (from 10 May 2005)	39,405	34,675
Derek Twigg MP – Parliamentary Under Secretary of State (from 10 May 2005 to 6 September 2006)	12,907	26,319
Gillian Merron MP – Parliamentary Under Secretary of State (from 5 May 2006)	27,106	-
Tom Harris MP – Parliamentary Under Secretary of State (from 6 September 2006)	17,002	-
Karen Buck MP – Parliamentary Under Secretary of State (to 16 March 2006)	-	25,131
David Jamieson – Parliamentary Under Secretary of State (to 5 May 2005)[1]	-	10,544
Tony McNulty MP – Minister of State (to 9 May 2005)	-	4,209

[1] David Jamieson received a severance payment of £7,293 included within the 2005-06 figure.

Officials	**2006-07**	**2005-06**
	£000	**£000**
Sir David Rowlands – Permanent Secretary[1]	180 - 185	170 - 175
Stephen Hickey – Director General	135 - 140	120 - 125
Simon Webb – Director General	140 - 145	130 - 135
Robert Devereux – Director General	125 - 130	120 - 125
Mike Mitchell – Director General (from 3 May 2005)[2]	165 - 170	150 - 155
Archie Robertson – Chief Executive[3]	-	-
Sue Killen – Director General (to 28 October 2005)	-	115 - 120

[1] See also separate note for benefits in kind.
[2] The 2005-06 figure includes relocation expenses of £15,000.
[3] Archie Robertson's remuneration is disclosed separately in the Highways Agency accounts.

The Non-Executive Directors of the Board received the following remuneration for their services during the year:

Non-Executive Directors	**£000**
Ann Hemingway[1]	13
Joe Montgomery[2] (to 26 January 2007)	-
Deborah Williams[3]	26

[1] Ann Hemingway is also a member of the DVO Board (£12,095 for the year) and the Efficiency Programme Board (£575 a day). Her total remuneration in relation to these extra responsibilities was £16,120 for the year.
[2] Joe Montgomery is a Director General of Communities and Local Government (DCLG). His salary and pension details are disclosed in the published accounts of DCLG. He received no fees in respect of his membership of the Department for Transport's Board.
[3] This includes a fee as Chair of the Audit Committee.

Salary

'Salary' includes gross salary; performance pay or bonuses; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation.

This presentation is based on payments made by the Department and recorded in these accounts. In respect of Ministers in the House of Commons, departments bear only the cost of the additional Ministerial remuneration; the salary for their services as a Minister of Parliament (MP) (£60,277 from 1 November 2006, £59,686 from 1 April 2006, *2005-06 £59,095*) and various allowances to which they are entitled are borne centrally.

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by HM Revenue and Customs as a taxable emolument. Sir David Rowlands had the private use of an unallocated car in the circumstances permitted by the *Civil Service Management Code*. This benefit of £9,049 (*2005-06 £10,261*) was chargeable to tax under s163 of the *Income and Corporation Taxes Act 1988*. No other Ministers or officials received any benefits in kind in either year.

Pension benefits

Ministers

	Accrued pension at age 65 as at 31/03/07	Real increase in pension at age 65	CETV at 31/03/07	CETV at 31/03/06	Real increase in CETV
	£000	£000	£000	£000	£000
Rt Hon Alistair Darling MP – Secretary of State (to 8 May 2006)	12.5 - 15.0	0 - 2.5	184	183	-
Rt Hon Douglas Alexander MP – Secretary of State (from 8 May 2006)	5.0 - 7.5	0 - 2.5	41	32	3
Stephen Ladyman MP – Minister of State (from 10 May 2005)	2.5 - 5.0	0 - 2.5	36	24	6
Derek Twigg MP – Parliamentary Under Secretary of State (from 10 May 2005 to 6 September 2006)	0 - 2.5	0 - 2.5	21	18	1
Gillian Merron MP – Parliamentary Under Secretary of State (from 5 May 2006)	2.5 - 5.0	0 - 2.5	21	15	3
Tom Harris MP – Parliamentary Under Secretary of State (from 6 September 2006)	0 - 2.5	0 - 2.5	3	-	2

Ministerial pensions

Pension benefits for Ministers are provided by the Parliamentary Contributory Pension Fund (PCPF). The scheme is statutory-based (made under *SI 1993 No 3253*, as amended).

Those Ministers who are MPs may also accrue an MP's pension under the PCPF (details of which are not included in this report). The arrangements for Ministers provide benefits on an 'average salary' basis, taking account of all service as a Minister. The accrual rate has been 1/40th since 15 July 2002 (or 5 July 2001 for those who chose to backdate the change) but Ministers, in common with all other members of the PCPF, can opt for a 1/50th accrual rate and a lower rate of employee contribution.

Benefits for Ministers are payable at the same time as MPs' benefits become payable under the PCPF or, for those individuals who are not MPs, on retirement from Ministerial office from the age of 65. Pensions are increased annually in line with changes in the Retail Prices Index. Members pay contributions of 6 per cent of their Ministerial salary if they have opted for the 1/50th accrual rate. Those members who have opted for the 1/40th accrual rate are required to pay an increased contribution. The rate was increased from 9 per cent to 10 per cent from 1 April 2004. There is also an employer contribution paid by the Exchequer, representing the balance of cost. This is 26.8 per cent of the Ministerial salary.

The accrued pension quoted is the pension that the Minister is entitled to receive when they reach the age of 65, or immediately on ceasing to be an active member of the scheme if they are already aged 65.

Officials

	Accrued pension at age 60 as at 31/03/07 £000	Real increase in pension at age 60 £000	CETV at 31/03/07 £000	CETV at 31/3/06 £000	Real increase in CETV £000
Sir David Rowlands – Permanent Secretary	65.0 - 67.5 plus 197.5 - 200.0 lump sum	2.0 - 2.5 plus 5.0 - 7.5 lump sum	1,590	1,467	51
Stephen Hickey – Director General	47.5 - 50.0 plus 147.5 - 150.0 lump sum	0 - 2.5 plus 2.5 - 5.0 lump sum	1,111	1,046	26
Simon Webb – Director General	55.0 - 57.5 plus 170.0 - 172. 5 lump sum	0 - 2.5 plus 5.0 - 7.5 lump sum	1,196	1,116	36
Robert Devereux – Director General	42.5 - 45.0 plus 127.5 - 130.0 lump sum	0 - 2.5 plus 5.0 - 7.5 lump sum	767	717	31
Mike Mitchell – Director General	2.5 - 5.0	0 - 2.5	71	33	33
Archie Robertson – Chief Executive	5.0 - 7.5	0 - 2.5	100	69	26

Civil Service Pensions

Pension benefits are provided through the Civil Service Pension arrangements. From 1 October 2002, Civil Servants may be in one of three statutory-based ‘final salary’ defined benefit schemes (Classic, Premium, and Classic Plus). The schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under Classic, Premium, and Classic Plus are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose between membership of Premium or joining a ‘money purchase’ stakeholder arrangement with a significant employer contribution (Partnership Pension Account).

Employee contributions are set at the rate of 1.5 per cent of pensionable earnings for Classic and 3.5 per cent for Premium and Classic Plus. Benefits in Classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years’ pension is payable on retirement. For Premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike Classic, there is no automatic lump sum but members may give up (commute) some of their pension to provide a lump sum. Classic Plus is essentially a variation of Premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per Classic.

The Partnership Pension Account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3 and 12.5 per cent (depending on the age of the member) into a stakeholder pension product chosen by the employee. The employee does not have to contribute but if they do make contributions, the employer will match these up to a limit of 3 per cent of pensionable salary (in addition to the employer’s basic contribution). Employers also contribute a further 0.8 per cent of pensionable salary to cover the cost of centrally-provided risk-benefit cover (death in service and ill-health retirement).

The accrued pension quoted is the pension that the member is entitled to receive when they reach the age of 60, or immediately on ceasing to be an active member of the scheme if they are already aged 60. Further details about the Civil Service Pension arrangements can be found at the website www.civilservice-pensions.gov.uk.

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member’s accrued benefits and any contingent spouse’s pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

For Ministers, the figures shown relate to the benefits accrued as a consequence of their total Ministerial service, not just their current appointment.

For senior officials, the figures relate to the benefits that an individual has accrued during their total membership of the scheme, not just their service in the senior capacity to which the disclosure applies. The CETV figures quoted include the value of any pension benefit in another scheme or arrangement that the individual has transferred to the Civil Service Pension Scheme and for which the Cabinet Office's Civil Superannuation Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued as a result of a member purchasing additional years of pension service at their own cost.

Real increase in CETV

For Ministers, this reflects the increase in CETV due to the Department's contributions to the PCPF. For others, this reflects the increase in CETV effectively funded by the employer. In both cases, it excludes increases in inflation and contributions paid (including the value of benefits transferred from another pension scheme or arrangement). Real increases are calculated using common market valuation factors for the start and end of the period.

Statement regarding the disclosure of information to the auditors

As Accounting Officer, I have taken all of the necessary steps to make myself aware of any relevant audit information and to establish that the National Audit Office has been made aware of that information in connection with its audit.

Insofar as I know, there is no relevant audit information of which the National Audit Office is not aware.

Robert Devereux 28 June 2007
Permanent Secretary and Accounting Officer
Department for Transport

Statement of Accounting Officer's Responsibilities

Under s5 of the *Government Resources and Accounts Act 2000*, the Department for Transport is required to prepare resource accounts for each financial year, in conformity with a direction from HM Treasury, detailing the resources acquired, held or disposed of during the year and the use of resources by the Department during the year.

The resource accounts are prepared on an accruals basis, and must give a true and fair view of the state of affairs of the Department, the net resource outturn, resources applied to the objectives, recognised gains and losses and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the *Government Financial Reporting Manual (FReM)* and, in particular, to:

- observe the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards, as set out in the *FReM*, have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on an ongoing basis.

HM Treasury has appointed the Permanent Head of the Department as Accounting Officer of the Department.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and safeguarding the Department's assets, are set out in the *Accounting Officer's Memorandum* issued by HM Treasury and published in *Government Accounting*.

Statement on internal control

Scope of responsibility

1. As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Department for Transport's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

2. The Department has seven Executive Agencies. Three of these (the Driver and Vehicle Licensing Agency, the Driving Standards Agency and the Vehicle and Operator Services Agency) operate as Trading Funds. Together with Passenger Focus (formally the Rail Passengers Council), the Railway Heritage Committee and the British Transport Police (all executive NDPBs), these bodies fall outside the Departmental accounting boundary; direct responsibility for maintaining the system of internal control rests with the relevant body and the accounts are not consolidated in the Department's accounts.

3. The other four DfT Agencies (the Maritime and Coastguard Agency, the Vehicle Certification Agency, the Government Car and Despatch Agency and the Highways Agency) and the Commission for Integrated Transport, the Disabled Persons Transport Advisory Committee and the Traffic Commissioners and Licensing Authorities, fall within the Departmental boundary. The Agency Chief Executives are responsible for the maintenance and operation of their systems of internal control. Each Chief Executive has signed a Statement on Internal Control relating to that system. These Statements are reproduced in the relevant body's accounts, which are consolidated in the Department's accounts. This Statement reports agency control issues only where they are significant in the context of the whole Department.

4. The Director General of the Driver, Vehicle and Operator Group (part of the Safety, Service Delivery and Logistics Group with effect from 1 April 2007) is an Additional Accounting Officer. The Group comprises the Driver and Vehicle Licensing Agency (DVLA), the Driving Standards Agency (DSA), the Vehicle Certification Agency (VCA) and the Vehicle and Operator Services Agency (VOSA). The Group does not produce separate financial statements but provides an additional layer of assurance through the operation of its Management Board. The Director General of the Driver, Vehicle and Operator Group is also an Additional Accounting Officer for the Government Car and Despatch Agency.

5. The Director General of the Rail Group (part of the Rail and National Networks Group with effect from 1 April 2007) is an Additional Accounting Officer. The Group is responsible for implementing the Government's strategy for the country's railways, for letting contracts for train franchises and for securing improved performance and value for money on the rail network. The Group does not produce separate financial statements but provides an additional layer of assurance through the operation of its Management Board.

The purpose of the system of internal control

6. The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve departmental policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. Subject to the developments during the year described in the following paragraphs, the system of internal control has been in place in the Department for Transport for the year ended 31 March 2007 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

7. Leadership on risk management is provided by:

the Department's Management Board, which monitors delivery against key objectives across the DfT family. Significant risks to these objectives are identified by the line and escalated to the Board. In 2006-07, the Department's Board included the three Directors General in the central Department, the Director General for the DVO Group, the Chief Executive of the Highways Agency and three non-executive members. The Director General for Delivery and Security (Corporate Capability and Resources Group with effect from 1 April 2007) is the Board's "Risk Management Champion";

- an Executive Committee, which seeks to ensure that the resources available to the central Department are managed as effectively as possible to meet identified risks and corporate governance standards;
- the Driver, Vehicle and Operator Group Board, which monitors delivery against key objectives across the DVO Group agencies, including risks to their achievement;
- the Board of the Department's Rail Group, which monitors delivery against objectives and the management of the Group's resources, including the controls for risk management; and
- the Boards of the Maritime and Coastguard Agency, the Highways Agency and the Government Car and Despatch Agency, which monitor and review risks to the delivery of their objectives.

8. The Department's Audit Committee monitors and reviews the processes for managing risk, control, governance and assurance across the DfT family, and includes two non-executive members from the DfT family. Each Agency has its own Audit Committee, which fulfils a similar function.

9. Officials consult Ministers regularly on risk. Submissions to Ministers incorporate assessments of key risks including, for example, to the operation of the transport system, including public perceptions, and to the successful delivery of new policies. DfT Ministers also receive regular reports on key cross-government risks from the Domestic Horizon Scanning Committee.

10. During 2006-07, the Department's Risk Improvement Manager identified and implemented actions to improve the identification and mitigation of Board level risks through an improved business planning and risk management reporting process. Improvements have also been made by the Agencies in the escalation of their risks to the DfT Board. The Department's Risk Improvement Manager is also responsible for ensuring that appropriate guidance, support and training on risk management is available to staff within the central Department. A programme of risk management workshops and other events was delivered, which helped embed risk management concepts into every day Departmental business and increase staff capacity to manage risks effectively. A number of improvements and additions were made to the Departmental risk guidance, including additional guidance on project and partnership risk management. Each Agency Chief Executive is responsible for ensuring that appropriate risk management guidance, support and training arrangements are in place within his or her agency.

The risk and control framework

11. The Treasury published its Code of Good Practice on Corporate Governance in Central Government Departments in July 2005; the Department's practices are broadly consistent with the principles set out in this Code.

12. Agency Chief Executives, Directors General and Heads of Unit (Directors) in the central Department take responsibility for the day to day management of risks in their respective areas of influence. Through regular delivery and financial reporting processes, the Board has set guideline criteria for the impact of risks that it considers should be escalated for its potential attention. The Department also has in place risk registers, and a corporate risk log, which is reviewed by the Board on a bi-monthly basis.

13. The central Department has in place a Corporate Governance Framework, which includes: the framework of accountabilities; the roles and responsibilities of Agency Chief Executives, Directors General and Directors; and the end of year reporting arrangements. The Framework sets out the responsibilities of Directors General and Directors for risk management. The Framework is supported by delegations from the Accounting Officer to Directors General to maintain effective accountability and management of resources.

14. The Department and its Agencies have put in place a common framework of management assurances to support a more transparent and consistent approach to the review of systems of internal control.

15. The Department and its Agencies have a number of well-established programmes for involving the public in managing the risks associated with transport. These include road safety campaigns, work by the Maritime and Coastguard Agency to communicate with the public on key areas of water safety, and regular safety digest reports by the Marine Accident Investigation Branch. The Department has also identified its ability to manage major transport disruptions as a key corporate risk, and has in place an active programme, working with partners, to ensure that adequate contingency and emergency plans are maintained, developed and reviewed.

Review of effectiveness

16. As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the Department who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the results of my review of the effectiveness of the system of internal control by the Board and the Audit Committee, and a plan to continuous improvement is in place.

17. The Audit Committee receives summaries of Internal Audit reports and considers the Group Head of Internal Audit's annual opinion on the effectiveness of risk management, control and governance. The Chair of the Audit Committee reports regularly to the Board the Committee's views on the effectiveness of internal control.

18. The Department's Audit and Risk Assurance Division (Internal Audit) operates to standards defined in the Government's Internal Audit Standard. It provides an independent opinion to the Accounting Officer on control and governance and the effectiveness of the Department's risk management systems. Regular reports are provided to the Department's management, as well as advice on risk and control issues. The Department's assessment of the control environment is also informed by the programme of external audits and value for money studies undertaken by the National Audit Office.

19. Directors General and Directors have reviewed internal control within their areas of responsibility and have completed end of year assurance returns, which the Finance Director has reviewed and summarised in his report to me on stewardship.

20. Over the next three years, the Department will be completing the transfer of its financial services to a new shared services platform. The Department recognises that there will be a degree of risk to transactions and information during the implementation period. Risks will continue to be assessed, and mitigating actions taken, as the implementation programme proceeds.

21. All DfT Agencies have reviewed the effectiveness of their systems of internal control and prepared Statements on Internal Control. No significant weaknesses were identified. In my statement for 2005-06, I noted the improvements in internal control planned by the Highways Agency for 2006-07. The actions taken by the Agency and the improvements it has made in internal control are described in the Highways Agency's Statement on Internal Control.

22. The Nichols Review of the Highways Agency's Major Roads Programme identified a number of control issues in both the Department and the Agency. The Department has accepted all the recommendations of the review and has an implementation programme in place. The actions are designed to lead to significant improvements in the management of cost estimation and control of the Major Roads Programme.

Group Audit Opinion

The Group Head of Internal Audit has provided the following opinion for 2006-07:

"My overall opinion on risk management, internal control and governance within the DfT Group is as follows:

Risk Management

I can provide substantial assurance that risk management processes are working well in the DfT Group. The Department and the Agencies have continued during the year to improve their risk management arrangements and embed them as part of their decision making and management processes.

Internal Control

I can provide substantial assurance that internal controls in all parts of the DfT Group are generally well designed and operating effectively. Work to improve controls, including financial controls, has continued during the year, most notably in the Highways Agency where a continuous programme of management initiatives has been successful in improving the Agency's performance on internal control. However, work to strengthen and embed effective control within the Highways Agency needs to continue, most especially in the light of the findings of the Nichols report on the major roads programme.

Corporate Governance

I can provide substantial assurance that the Department and the Agencies have appropriate structures in place to govern their work. They are largely consistent with the Treasury's Code of Good Practice on Corporate Governance."

Robert Devereux
Accounting Officer
Department for Transport

28 June 2007

The Certificate and Report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of the Department for Transport for the year ended March 2007 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the Statement of Operating Costs by Departmental Aim and Objectives and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

The Accounting Officer is responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements and the part of the remuneration report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I report to you whether, in my opinion, certain information given in the Annual Report, which comprises the Management Commentary and the Remuneration Report is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Department has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Department's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Department's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

Audit Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Department's affairs as at 31 March 2007, and the net cash requirement, net resource outturn, net operating cost, operating costs applied to objectives, recognised gains and losses and cashflows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- information given within the Annual Report, which comprises the Management Commentary and the Remuneration Report is consistent with the financial statements.

Audit Opinion on Regularity

In my opinion, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Report of the Comptroller and Auditor General to the House of Commons

Railways Act 2005

Under the Railways Act 2005, the Strategic Rail Authority, an NDPB, was abolished and its main strategic and financial functions were transferred to the Department for Transport during 2005. Those functions are reflected in these accounts. In 2004-05 the SRA's accounts included the consolidation of Network Rail. The consolidation boundary for the Department's Resource Account, defined by rules in HM Treasury's Financial Reporting Manual, excludes the possibility of consolidating entities such as Network Rail. Note 38 to these accounts, sets out the nature of the Department for Transport's relationship with Network Rail.

Section 2 of the Exchequer and Audit Departments Act 1921

Section 2 of the Exchequer and Audit Departments Act 1921 requires me to examine all revenue accounts on behalf of the House of Commons to ascertain that adequate regulations and procedure have been framed to secure an effective check on the assessment, collection and proper allocation of revenue, and that they are being duly carried out. I am also required by that Act to examine the correctness of the sums brought to account and to report the results to the House of Commons.

The Driver and Vehicle Licensing Agency, a Trading Fund of the Department for Transport, is responsible for the collection of Vehicle Excise Duty across the United Kingdom. The Vehicle Excise Duty account is due to be laid before the House of Commons on 20 July 2007 with my detailed report under the 1921 Act.

John Bourn
Comptroller and Auditor General
29 June 2007

National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W9SP

Statement of Parliamentary Supply

for the year ended 31 March 2007

Summary of Resource Outturn 2006-07

								2006-07 £000	2005-06 £000
		Estimate			Outturn				Outturn
	Note	Gross Expenditure	A in A	Net Total	Gross Expenditure	A in A	Net Total	Net Total Outturn compared with Estimate: saving/ (excess)	Net Total (restated)
Request for Resources 1	2	14,674,364	(709,994)	13,964,370	14,363,770	(650,444)	13,713,326	251,044	12,043,381
Total resources	3	14,674,364	(709,994)	13,964,370	14,363,770	(650,444)	13,713,326	251,044	12,043,381
Non-operating cost A in A	7			(29,652)			(24,432)	5,220	(23,557)

Net Cash Requirement 2006-07

		2006-07 £000			2005-06 £000
	Note	Estimate	Outturn	Net Total Outturn compared with Estimate: saving/ (excess)	Outturn
Net Cash Requirement	4	11,733,565	11,559,814	173,751	10,050,545

Summary of the income payable to the Consolidated Fund

In addition to appropriations in aid, the following income relates to the Department and is payable to the Consolidated Fund

		Forecast 2006-07 £000		Outturn 2006-07 £000	
	Note	Income	Receipts	Income	Receipts
Total	5	157,534	*157,534*	167,979	*234,632*

Explanations of variances between Estimate and Outturn are given in the Annual Report.

The notes on pages 26 to 70 form part of these accounts

Operating Cost Statement

for the year ended 31 March 2007

				2006-07 £000 Core Department			2006-07 £000 Consolidated	2005-06 £000 Core Department (restated)	2005-06 £000 Consolidated (restated)
	Note	Staff Costs	Other Costs	Income	Staff Costs	Other Costs	Income	Total	Total
Administration Costs:									
Staff costs	9	92,538			165,177			98,833	171,304
Other administration costs	10		73,990			117,600		128,138	171,287
Operating income	12			(7,557)			(29,866)	(14,077)	(34,146)
Programme Costs									
Staff costs	9	14,172			107,876			13,778	80,504
Programme costs	11		8,874,377			13,990,701		7,438,305	12,114,004
Income	12			(525,152)			(605,926)	(430,728)	(489,298)
EU Income	12			-			(4,270)	-	(2,276)
EU Income (acting as agency)	12			(16,886)			(16,886)	(22,367)	(22,367)
Dividend receivable	12			-			-	(5,277)	(5,277)
Interest receivable	12			(29,140)			(40,047)	(30,073)	(39,347)
Totals		106,710	8,948,367	(578,735)	273,053	14,108,301	(696,995)	7,176,532	11,944,388
Net Operating Cost	3, 13			8,476,342			13,684,359	7,176,532	11,944,388
Net Resource Outturn	3						13,713,326		12,043,381

Statement of Recognised Gains and Losses

for the year ended 31 March 2007

		2006-07 £000		2005-06 £000	
	Note	Core Department	Consolidated	Core Department (restated)	Consolidated (restated)
Net gain on revaluation of tangible/intangible fixed assets	23	3,855	5,777,859	3,209	4,573,170
Reversionary interest on M6 toll road	22	-	12,366	-	9,130
Actuarial gain recognised in pension scheme	22	193,417	193,417	246,800	246,800
Prior year adjustment	22, 23	-	(55,786)	(1,594)	111,729
Recognised gains and losses for the financial year		**197,272**	**5,927,856**	**248,415**	**4,940,829**

The notes on pages 26 to 70 form part of these accounts

Balance Sheet

as at 31 March 2007

	Note		2006-07 £000		2005-06 £000	
			Core Department	**Consolidated**	**Core Department (restated)**	**Consolidated (restated)**
Fixed assets:						
Intangible assets	14	22,856		27,991	20,846	25,803
Tangible assets	15	1,883,329		84,288,481	1,737,369	78,155,624
Investments	16	675,882		675,882	663,431	663,431
			2,582,067	84,992,354	2,421,646	78,844,858
Debtors falling due after more than one year	18		5,000	206,448	10,000	184,462
Current assets:						
Stocks	17	-		27,434	-	25,818
Debtors	18	173,584		268,495	221,167	307,319
Cash at bank and in hand	19	190,705		191,937	243,703	248,583
		364,289		487,866	464,870	581,720
Creditors (amounts falling due within one year)	20	(622,688)		(1,213,254)	(725,589)	(1,293,873)
Net current liabilities			(258,399)	(725,388)	(260,719)	(712,153)
Total assets less current liabilities			**2,328,668**	**84,473,414**	**2,170,927**	**78,317,167**
Creditors (amounts falling due after more than one year)	20		(1,806,759)	(3,120,469)	(1,666,943)	(2,739,677)
Provisions for liabilities and charges	21		(700,785)	(1,288,601)	(1,258,563)	(1,718,549)
Pension liability	39		(116,038)	(116,038)	(373,740)	(373,740)
Total			**(294,914)**	**79,948,306**	**(1,128,319)**	**73,485,201**
Taxpayers' equity:						
General Fund	22		(321,624)	39,203,440	(1,151,173)	38,417,980
Revaluation Reserve	23		26,710	40,744,866	22,854	35,067,221
Total			**(294,914)**	**79,948,306**	**(1,128,319)**	**73,485,201**

The comparative figures have been restated following the detrunking of certain non-core roads to local authorities (see Note 37.1).

Robert Devereux
Accounting Officer
Department for Transport

28 June 2007

The notes on pages 26 to 70 form part of these accounts

Cash Flow Statement

for the year ended 31 March 2007

	Note	2006-07 £000	2005-06 (restated) £000
Net cash outflow from operating activities	24.1	(10,344,294)	(9,212,841)
Cost of servicing of finance: interest element of PFI payments		-	-
Capital expenditure and financial investment	24.2	(1,076,738)	(728,453)
Receipts due to the Consolidated Fund which are outside the scope of the Department's activities		134,780	113,110
Payments of amounts due to the Consolidated Fund		(237,513)	(190,815)
Financing	24.4	11,467,119	10,108,309
Increase/(decrease) in cash in the period	24.5	(56,646)	89,310

Net Operating Costs by Departmental Aim and Objectives

for the year ended 31 March 2007

			2006-07 £000			2005-06 (restated) £000
	Gross	**Income**	**Net**	**Gross**	**Income**	**Net**
Aim						
Objective 1	7,503,251	(357,402)	7,145,849	6,358,519	(224,790)	6,133,729
Objective 2	3,292,945	(109,800)	3,183,145	2,803,260	(109,584)	2,693,676
Objective 3	3,487,886	(209,514)	3,278,372	3,261,659	(239,582)	3,022,077
Objective 4	97,272	(20,279)	76,993	113,661	(18,755)	94,906
Net operating costs	**14,381,354**	**(696,995)**	**13,684,359**	**12,537,099**	**(592,711)**	**11,944,388**

The Department's objectives were as follows:

Objective 1 - Support the economy through the provision of efficient and reliable inter-regional transport systems by making better use of the existing road network; reforming rail services and industry structures to deliver significant performance improvements for users; and investing in additional capacity to meet growing demand.

Objective 2 - Deliver improvements to the accessibility, punctuality and reliability of local and regional transport systems through the approaches set out in Objective 1 and through increased use of public transport and other appropriate local solutions.

Objective 3 - Balance the need to travel with the need to improve quality of life by improving safety and respecting the environment.

Objective 4 - Improve cost-effectiveness through sound financial management, robust cost control, and clear appraisal of transport investment choices across different modes and locations.

The notes on pages 26 to 70 form part of these accounts

Notes to the Departmental Resource Accounts

1 Statement of Accounting Policies

These financial statements have been prepared in accordance with the *2006-07 Government Financial Reporting Manual (FReM)* issued by HM Treasury. The accounting policies contained in the *FReM* follow UK Generally Accepted Accounting Practice for companies *(*UK GAAP*)* to the extent that it is meaningful and appropriate to the public sector.

In addition to the primary statements prepared under UK GAAP, the *FReM* also requires the Department to prepare two additional primary statements. The Statement of Parliamentary Supply and supporting notes show Outturn against Estimate in terms of the Net Resource Requirement and the Net Cash Requirement. The Net Operating Costs by Departmental Aim and Objectives and supporting notes analyse the Department's income and expenditure by the objectives agreed with Ministers.

Where the *FReM* permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the Department for the purpose of giving a true and fair view has been selected. The Department's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting convention

These accounts have been prepared under the historical cost convention, modified to account for the revaluation of fixed assets and stocks, where material, at their value to the business by reference to their current costs.

1.2 Basis of consolidation

These accounts comprise a consolidation of the core Department, and those entities that fall within the Departmental boundary as defined in the *FReM* issued by HM Treasury and as listed in Note 36. Transactions between entities included in the consolidation are eliminated.

1.3 Tangible fixed assets

Tangible fixed assets are categorised as network assets and non-network assets. Network assets comprise motorways and trunk roads in England and Wales, which form an integrated network infrastructure. The network consists of carriageways, including earthworks; tunnelling and road pavements; roadside communications; bridges and other structures; and land and buildings within the perimeter of highways. Non-network assets include land and buildings; plant and equipment; and information technology.

The core Department's capitalisation threshold is £5,000. The thresholds in the Agencies range from £1,000 to £2,000 for individual or grouped assets; except for land, for which there is no minimum value, and infrastructure construction schemes in the Highways Agency, for which the minimum is £100,000. Assets usually comprise single items. However, those assets included within the road network, ring-fenced relocation projects, or computer equipment which, in substance, form a single asset, are capitalised as grouped assets.

Operating software is capitalised, with the value of the hardware supporting it, as a tangible fixed asset. Applications software is capitalised separately as an intangible fixed asset.

Legal title to the freehold land and buildings shown in the accounts is held in the name of the Secretary of State.

1.4 Valuation

Fixed assets are expressed at their current value through the application of Modified Historic Cost Accounting.

Network assets, which are intended to be maintained at a specific level of service potential by continuing replacement and refurbishment, are valued at depreciated replacement cost. Between valuations, the assets are adjusted annually using ROCOS (resource cost index of road construction) and Valuation Office Agency property market reports. Network assets are valued by reference to internal costings and physical asset records. The estimated unexpired life of the network is reassessed annually and the valuation adjusted, if required.

Freehold land and buildings are restated to current value using professional valuations, in accordance with *FRS 15.* Such valuations are undertaken every five years. In intervening years, values are adjusted using appropriate methods, including indices, except the freehold land on which the Channel Tunnel Rail Link has been constructed, which has been leased to the operator for 90 years. Reflecting this usage, the land has been valued at the net present value of the lease income, since the land is not unencumbered and the Department's rights are, to that extent, constrained. The reversionary interest of the land and the Link constructed upon it are valued at nil.

Assets held for resale (dwellings), being land and property released from road schemes, are valued at open market value, less provision for selling costs. All other tangible fixed assets are restated to current value each year, using appropriate indices, except database development assets which are stated at cost.

1.5 Depreciation

Network assets (Infrastructure assets)

A modified version of renewals accounting, as described in the *FReM*, is applied, where appropriate. The following network asset components are subject to renewals accounting: surface layer of flexible pavements; sub-pavement layer of determinate life pavements; fencing, drainage, lighting, signage, kerbs, footways; road markings and studs; and rigid concrete pavements.

Assets that qualify for renewals accounting are not depreciated. Instead, expenditure incurred in maintaining the operating capacity of assets is expensed as a proxy for depreciation. Further details are disclosed within the accounts of the Highways Agency.

The following network components are considered to have an indefinite life and are not depreciated: freehold land; sub-pavement layer of long-life pavements; and earthworks.

All other network assets and definable components, with determinable finite lives, are depreciated at rates calculated to write off the assets over their expected useful lives on a straight-line basis, as follows (for national trunk roads):

Road bridges, tunnels and underpasses, road culverts, retaining walls and gantries	20 to 120 years
Road communications assets	15 to 50 years

Non-network assets

Freehold land is not depreciated. Assets in the course of construction and residual interests in off-balance sheet PFI contract assets are not depreciated until the relevant asset is brought into use or reverts to the Department, respectively. Depreciation is provided at rates calculated to write off the value of freehold buildings and other tangible fixed assets on a straight-line basis. Asset lives are normally in the following ranges:

Asset group	**Asset life**
Land and buildings, including dwellings	Up to 60 years or length of lease
Plant and machinery	3 to 25 years
Furniture and fittings	2 to 10 years
Transport equipment	3 to 10 years
Information technology	3 to 10 years
Assets under construction	No depreciation

Assets in storage (for example overhead gantries) become a network asset once issued from stores. These items are kept in controlled conditions and do not deteriorate. They have a design life in excess of 60 years. While not depreciated, they are subject to an annual impairment review.

1.6 Intangible fixed assets

Purchased computer software licences are capitalised as intangible fixed assets. These items are valued at historic cost and are normally amortised over two to five years on a straight-line basis over their useful lives. Expenditure on research is not capitalised. Expenditure on development in connection with a product or service, which is to be supplied on a full cost recovery basis, is capitalised if it meets the criteria specified in the *FReM.* Other development expenditure is capitalised if it meets the criteria specified in the *FReM*. Expenditure that does not meet the criteria for capitalisation is treated as an operating cost in the year in which it is incurred. Fixed assets acquired for use in research and development are depreciated over the life of the associated project, or according to the asset category if the asset is to be used for subsequent production work.

1.7 Investments

Investments comprise holdings that the Department intends to retain for the foreseeable future and are therefore treated as fixed asset investments. All loans and issued Public Dividend Capital are shown at historic cost. Investments may either be equity investments, held in the name of the Secretary of State, or medium or long-term loans that were made with the intention of providing working capital or commercial support.

Amounts owed by the Department to the National Loans Fund are included in creditors in the balance sheet at historic cost. The Secretary of State's holdings in companies, in the form of special shares, are each valued at a nominal value of £1. Further information is included in Note 16 to the accounts. The National Air Traffic Holdings Limited, SRA Investment Company Limited and British Railways Board (Residuary) Limited shares are valued at historic cost less any impairments.

Other investments are shown at market value at 31 March 2007.

1.8 Stocks and work in progress

Stock is valued at cost, or replacement cost, if materially different. Long-term stock holdings for special structures (such as tunnels and bridges), where there are no recent purchases, are valued at estimated replacement cost. Where excess or obsolete stock holdings have been identified, a provision has been made to reduce the carrying value to the estimated net realisable value. Work in progress is valued at the lower of cost, including appropriate overheads, and net realisable value.

1.9 Research and development expenditure

Expenditure on research and development has been treated as programme expenditure in the Operating Cost Statement in the year in which it is incurred. Fixed assets acquired for use in research and development are depreciated over the life of the associated research project, or according to the asset category, if the asset is to be used for subsequent production work.

1.10 Operating income

Operating income is income that relates directly to the operating activities of the Department. It includes not only income appropriated in aid of the Estimate, but also income payable to the Consolidated Fund, authorised by HM Treasury to be treated as operating income. It is stated net of VAT.

1.11 Administration and programme expenditure

The Operating Cost Statement is segmented into programme and non-programme expenditure. The classification of expenditure and income as administration or as programme follows the definition of administration costs set by HM Treasury. Programme costs reflect non-administration costs, including payments of grants and other disbursements by the Department. Both the Maritime and Coastguard Agency and the Vehicle Certification Agency have programme expenditure only.

1.12 Capital charge

A charge, reflecting the cost of capital utilised by the Department, is included in operating costs. The charge is calculated at the real rate set by HM Treasury (currently 3.5 per cent) on the average carrying amount of all assets less liabilities, except for:

(i) tangible and intangible fixed assets, where the cost of capital charge is based on opening values, adjusted pro rata for in-year:

- additions;
- disposals as valued in the opening balance sheet (plus any subsequent capital expenditure prior to disposal);
- impairments at the amount of the reduction of the opening balance sheet value (plus any subsequent capital expenditure); and
- depreciation of tangible, and amortisation of intangible, fixed assets:

(ii) cash balances with the Office of the Paymaster General, where the charge is nil; and
(iii) the Department's investments and loans, where the charge is between 3.5 and 7.875 per cent, based on the rate of return on the investment.

1.13 Pensions

Past and present employees of the Department and its Agencies are generally covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS), which is described in Note 9. The defined benefit scheme is unfunded and is non-contributory, except in respect of dependants' benefits. The Department recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruals basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution schemes, the Department recognises the contributions payable for the year.

Pension benefits to Ministers are provided by the Parliamentary Contributory Pension Fund (PCPF). Further details are provided in the Remuneration Report. Other schemes are accounted for in accordance with *FRS 17.*

The Department is also responsible for funding any shortfalls in a small number of historic funded pension arrangements, which relate almost entirely to individuals drawing pensions. Where it is considered more likely than not that the Department has an obligation to make contributions in respect of any deficit, the value of such contributions is recognised as a provision.

The Department has also undertaken to fund the pension of a small number of special post holders including the PPP Arbiter.

1.14 Leases

Rentals under operating leases are charged to the Operating Cost Statement on a straight line basis over the term of the lease. Where the substantial risks and rewards of ownership are borne by the Department, the asset is recorded as a tangible fixed asset and a creditor to the lessor is recorded of the minimum lease payments discounted by the interest rate implicit in the lease. The interest element of the finance lease payment is charged to the Operating Cost Statement over the period of the lease at a constant rate in relation to the balance outstanding.

1.15 Public Finance Initiative (PFI) contracts

PFI transactions have been accounted for in accordance with HM Treasury’s *Technical Note No 1 Revised*; *How to Account for PFI Transactions*.

Where the substance of the transaction is that the risks and rewards of ownership remain with the Department, the assets and liabilities are reported on the Department’s balance sheet. Unitary charges in respect of on-balance sheet PFI deals are apportioned between reduction in the capital obligation and charges to the Operating Cost Statement for service performance and finance cost. Where the balance of risks and rewards of ownership of the PFI property is borne by the PFI operator, the PFI payments are recorded as an operating cost. Where the Department has contributed assets that result in lower service charge payments, a prepayment for their fair value is recognised and subsequently charged as an operating cost over the life of the PFI contract.

1.16 Grants payable

Grants payable are recognised in the period in which the underlying event or activity giving entitlement to the grant occurs. Where conditions, such as a specific milestone attaching to a grant, are waived then the amount is recognised as expenditure.

1.17 Provisions

The Department makes provision for liabilities and charges in accordance with *FRS 12* where, at the balance sheet date, a legal or constructive liability (i.e. a present obligation from past events) exists, the transfer of economic benefits is probable and a reasonable estimate can be made. Where the effect of the time value of money is material, the estimated risk-adjusted cash flows are discounted using the HM Treasury model.

1.18 Contingent liabilities

In accordance with *FRS 12*, the Department discloses as contingent liabilities potential future obligations arising from past obligating events, where the existence of such obligations remains uncertain pending the outcome of future events outside of the Department's control, unless their likelihood is considered to be remote.

In addition to contingent liabilities disclosed in accordance with *FRS 12*, the Department also discloses for Parliamentary reporting and accountability purposes certain contingent liabilities where the likelihood of a transfer of economic benefit is remote.

Where the time value of money is material, contingent liabilities, which are required to be disclosed under *FRS 12*, are stated at discounted amounts and the amount reported to Parliament is noted separately. Contingent liabilities that are not required to be disclosed by *FRS 12* are stated at the amounts reported to Parliament.

1.19 Value added tax

Irrecoverable VAT is charged to the relevant category or, if appropriate, capitalised with additions to fixed assets. Income and expenditure is otherwise shown net of VAT.

1.20 Prior year adjustments

Material adjustments applicable to prior periods arising from machinery of government changes, accounting policy changes, or from the correction of fundamental errors are accounted for as prior year adjustments. Due to trunking and detrunking of the Highways Agency's road network, opening balances and comparative figures for the previous period have been restated.

1.21 Rail franchise agreements

Franchise agreements provide for each train operating company to either pay franchise premia or to receive subsidy in each franchise year. Franchise agreements include mechanisms to adjust the level of premia/subsidy dependent on performance and agreed events. All transactions in respect of premium generating franchises are accounted for wholly through income, all transactions in respect of subsidy-paying franchises are accounted for wholly through programme costs.

1.22 Early departure costs

The Department is required to pay the additional cost of benefits, beyond the normal PCSPS benefits, in respect of employees who retire early, unless the retirements are on approved medical grounds. The Department provides in full for the cost of meeting pensions up to normal retirement age in respect of early retirement programmes announced in the current or previous years.

1.23 Significant estimation techniques

Significant estimation techniques include the valuation of the national trunk road network; the recognition and valuation of provisions; the method of apportionment of lease rentals between capital, interest and service elements of PFI contracts; and, for those pension schemes for which *FRS 17* applies, the expected return on scheme assets, as advised by independent actuaries.

2 Analysis of Net Resource Outturn by Section

		2006-07 £000								2005-06 £000
		Admin	Other Current	Grants	Gross Resource Expenditure	A in A	Net Total	Estimate	Net Total compared with Estimate	Net Total (restated)
	Spending in Departmental Expenditure Limits (DEL)									
	Central Government spending									
A	Ports and shipping services		19,200	-	19,200	(3,223)	15,977	19,554	3,577	11,963
B	Maritime and Coastguard Agency		132,951	-	132,951	(10,953)	121,998	121,526	(472)	119,338
C	Aviation services		25,962	47,029	72,991	(52,849)	20,142	18,869	(1,273)	11,788
D	Transport security and Royal travel		8,897	5,496	14,393	(19)	14,374	17,829	3,455	11,778
E	Highways Agency	97,676	2,327,011	-	2,424,687	(60,050)	2,364,637	2,397,750	33,113	2,075,380
F	Publicity and advice		18,957	1,998	20,955	-	20,955	22,563	1,608	25,146
G	Research		22,422	-	22,422	(48)	22,374	36,473	14,099	21,279
H	Statistics, censuses and surveys		9,312	215	9,527	(15)	9,512	15,130	5,618	9,919
I	Consultancies and other services for roads and local transport		4,458	388	4,846	(46)	4,800	5,281	481	3,965
J	Mobility and Inclusion Unit		928	3,418	4,346	(13)	4,333	4,518	185	4,380
K	Strategic transport studies		86	-	86	-	86	1,500	1,414	561
L	Railways		1,200,042	3,043,397	4,243,439	(284,255)	3,959,184	3,998,907	39,723	3,180,294
M	Commission for Integrated Transport		1,445	-	1,445	-	1,445	1,500	55	481
N	Freight grants		23,314	5,535	28,849	-	28,849	33,608	4,759	26,134
O	Bus service operators grant		370,325	-	370,325	-	370,325	400,051	29,726	374,189
P	Vehicle excise duty enforcement		-	-	-	(17,076)	(17,076)	(15,250)	1,826	(39,333)
Q	Vehicle Certification Agency - other payments		883	-	883	-	883	918	35	1,344
R	Vehicle Certification Agency		9,895	-	9,895	(10,233)	(338)	(324)	14	64
S	Power shift and clean up		6,361	7,109	13,470	(290)	13,180	18,000	4,820	9,091
T	Dartford river crossing		-	-	-	(68,365)	(68,365)	(69,475)	(1,110)	(69,151)
U	Driving Standards Agency trading fund		2,677	-	2,677	(1,085)	1,592	835	(757)	(74)
V	Vehicle and Operator Service Agency trading fund		3,548	-	3,548	(2,617)	931	(242)	(1,173)	931
W	Driver, Vehicle and Operator Group - enforcement		16,088	-	16,088	-	16,088	16,318	230	15,962
X	Central administration	155,605	24,654	-	180,259	(7,694)	172,565	185,816	13,251	227,777
Y	Trans-European network payments for transport projects(net)		-	-	-	-	-	3	3	14
Z	Driver, Vehicle and Operator Group - central (including loan pool)		-	-	-	-	-	-	-	-

AA	Other river crossings		27,337	-	27,337	(15,481)	11,856	13,401	1,545	11,866
AB	Government Car and Despatch Agency	18,833	-	-	18,833	(19,034)	(201)	-	201	(10)
	Support for Local Authorities									
AC	GLA transport grant (resource)		-	2,638,305	2,638,305	-	2,638,305	2,637,000	(1,305)	1,448,510
AD	GLA transport grant (capital)		-	-	-	-	-	-	-	731,958
AE	Other transport grants (resource)		194	462,737	462,931	(68)	462,863	477,549	14,686	391,610
AF	Other transport grants (capital)		(348)	291,307	290,959	-	290,959	332,675	41,716	159,798
AG										
	Speed and red-light camera enforcement		980	95,677	96,657	(96,726)	(69)	(376)	(307)	-
	Spending in Annually Managed Expenditure (AME)									
	Central Government spending									
AH	Highways Agency		2,741,535	-	2,741,535	-	2,741,535	2,736,417	(5,118)	2,588,309
	Non-Budget									
AI	Strategic Rail Authority		-	4,100	4,100	-	4,100	100	(4,000)	345,751
AJ	Grant in Aid funding of non-departmental public bodies and public corporations		-	243,637	243,637	-	243,637	224,079	(19,558)	20,669
AK	Driver and Vehicle Licensing Agency (trading fund)		714	264,572	265,286	(304)	264,982	281,880	16,898	203,380
	Spending in Departmental Expenditure Limits (DEL)									
	Central Government spending									
AL	Haulage efficiency and modernisation projects		1,582	-	1,582	-	1,582	3,500	1,918	458
	Spending in Annually Managed Expenditure (AME)									
	Central Government spending									
AM	Railways		(24,674)	-	(24,674)	-	(24,674)	26,487	51,161	50,050
	Total	**272,114**	**6,976,736**	**7,114,920**	**14,363,770**	**(650,444)**	**13,713,326**	**13,964,370**	**251,044**	**11,975,569**
	Excess A in A						-			67,812
	Net Resource Outturn - Operating Cost Statement						**13,713,326**			**12,043,381**

Detailed explanations of significant variances between Estimate and Net Resource Outturn are shown in the Management Commentary on page 6.

3 Reconciliation of Outturn to Net Operating Cost and against Administration Budget

3.1 Reconciliation of Net Resource Outturn to Net Operating Cost

				2006-07	2005-06 (restated)
				£000	£000
	Note	Outturn	Supply Estimate	Outturn compared with Estimate	Outturn
Net Resource Outturn	2	13,713,326	13,964,370	251,044	12,043,381
Non-voted income (CFERs)	5	(28,967)	(20,339)	8,628	(98,993)
Net Operating Cost		13,684,359	13,944,031	259,672	11,944,388

3.2 Outturn against Administration Budget

		2006-07	2005-06 (restated)
		£000	£000
	Budget	Outturn	Outturn
Gross Administration Budget	288,195	272,114	288,599
Income allowable against the Administration Budget	(25,025)	(28,482)	(33,281)
Net Outturn against Administration Budget	263,170	243,632	255,318

4 Reconciliation of Resources to Cash Requirement

				2006-07	2005-06 (restated)
		£000	£000	£000	£000
	Note	Estimate	Outturn	Net Total Outturn compared with Estimate: saving/ (excess)	Outturn
Resource Outturn	2	13,964,370	13,713,326	251,044	12,043,381
Capital Expenditure	14 & 15	1,216,492	1,157,693	58,799	794,415
Investments	16	-	32,500	(32,500)	34,800
Non-Operating A in A					
Proceeds from fixed asset disposals		(29,652)	(9,604)	(20,048)	(12,373)
Repayments of investments		-	(14,828)	14,828	(11,184)
Accruals adjustments:					
Non-cash items	10 & 11	(4,203,208)	(4,225,945)	22,737	(3,570,133)
Changes in working capital other than cash		(278,572)	(175,790)	(102,782)	(174,911)
Use of provision	21	1,064,135	1,100,267	(36,132)	922,368
Non-cash movement in provisions		-	(19,569)	19,569	21,217
Increase/(decrease) in third party balances	20	-	(303)	303	1,784
Detrunkings		-	2,067	(2,067)	1,181
Net Cash Requirement		11,733,565	11,559,814	173,751	10,050,545

5 Analysis of income payable to the Consolidated Fund

In addition to appropriations in aid (A in A), the following income relates to the Department and is payable to the Consolidated Fund.

	Forecast 2006-07		Outturn 2006-07	
		£000		£000
	Income	Receipts	Income	Receipts
Operating income and receipts - Excess A in A	-	-	-	*67,812*
Other operating income and receipts not classified as A in A	20,339	*20,339*	28,967	*21,330*
	20,339	*20,339*	28,967	*89,142*
Non-operating income and receipts - Excess A in A	-	-	-	*6,478*
Other non-operating income and receipts not classified as A in A	3,149	*3,149*	4,232	*4,232*
Other amounts collectable on behalf of the Consolidated Fund	134,046	*134,046*	134,780	*134,780*
	157,534	***157,534***	**167,979**	***234,632***

6 Reconciliation of income recorded within the Operating Cost Statement to operating income payable to the Consolidated Fund

	Note	2006-07	2005-06 (restated)
		£000	£000
Operating income	12	696,995	592,711
Income authorised to be appropriated in aid	2	(650,444)	(470,718)
Income netted off within Note 2 section Y		(16,886)	(22,367)
Interest to be paid to the National Loans Fund		(698)	(633)
Operating income payable to the Consolidated Fund	5	28,967	98,993

7 Non-operating income

	2006-07	2005-06
	£000	£000
Principal payment of Voted loans	14,828	17,662
Proceeds on disposals of fixed assets	9,604	12,373
Excess appropriations in aid	-	(6,478)
Non-operating Income	24,432	23,557

8 Non-operating income not classified as Appropriations in Aid

	Income	Receipts
	£000	£000
Humber Bridge	1,082	1,082
Mersey Tunnel	1,525	1,525
Tyne Tunnel	1,625	1,625
Total	4,232	4,232

9 Staff Numbers and Costs

9.1 Staff Costs

Staff costs comprise:

	2006-07				2005-06
	Total	**Permanently Employed Staff**	**Ministers**	**Special Advisers**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**
Wages and salaries	214,452	214,174	189	89	199,052
Social security costs	19,545	19,519	16	10	18,441
Other pension costs	41,882	41,862	-	20	36,318
	275,879	275,555	205	119	253,811
Agency and contracted out staff	11,061	11,061			8,998
Inward secondments	185	185			2,139
	287,125	286,801	205	119	264,948
Less: amount capitalised	(14,072)	(14,072)			(13,140)
Total Net Costs	273,053	272,729	205	119	251,808
Of which:					
Core Department	106,710	106,386	205	119	112,611

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme, which prepares its own scheme statements. The Department is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2006-07, employer's contributions of £38,837,609 (*2005-06: £34,479,533*) were payable to the PCSPS at one of four rates in the range 17.1 to 25.5 per cent (*2005-06: 16.2 to 24.6 per cent*) of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years, following a full scheme valuation. From 2007-08, the salary bands will be revised and the rates will remain in the range 17.1 to 25.5 per cent. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and also reflect past experience of the scheme.

Employees joining the Department after 1 October 2002 could opt to open a partnership pension account, which is a stakeholder pension with an employer contribution. Employer's contributions of £153,731 (*2005-06: £89,063*) were paid to one or more of a panel of four appointed stakeholder pension providers. Employer contributions are age-related and range from 3 to 12.5 per cent of pensionable pay. Employers also match employee contributions of up to 3 per cent of pensionable pay. In addition, employer contributions of £13,952 (*2005-06: £18,185*), representing 0.8 per cent of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill-health retirement for relevant employees. No contributions were due to the partnership pension providers at 31 March 2007. There were no contributions prepaid at 31 March 2007.

In total, 18 people retired early on ill-health grounds and the total additional accrued pension liabilities in the period amounted to £26,674 (*2005-06: 11 people, £72,954*).

9.2 Average Number of Persons Employed

The average number of full-time equivalent persons employed during the year is shown in the following table. The figures include those persons working in the core Department and its Agencies, as included within the consolidated resource account.

					2006-07 Number	2005-06 Number (restated)
	Total	**Permanent Staff**	**Other Staff**	**Ministers**	**Special Advisers**	**Total**
Objective						
1	2,114.64	1,999.92	113.32	0.96	0.44	2,162.50
2	940.71	807.74	131.57	0.96	0.44	756.94
3	3,822.01	3,598.48	222.13	0.96	0.44	3,218.28
4	502.86	450.05	51.41	0.96	0.44	379.09
Total	**7,380.22**	**6,856.19**	**518.43**	**3.84**	**1.76**	**6,516.81**
Of which:						
Core Department	2,281.71	2,009.70	266.43	3.83	1.75	2,371.62

10 Other Administration Costs

		2006-07		2005-06
	Core Department	**Consolidated**	**Core Department (restated)**	**Consolidated (restated)**
	£000	**£000**	**£000**	**£000**
Rentals under operating leases	14,942	23,410	12,957	20,845
Interest charges	-	-	(200)	(200)
Research and development expenditure	458	467	86	97
Communication and information technology	9,328	11,164	8,830	10,861
Consultancy	9,998	11,783	14,158	16,440
Professional services	1,782	1,996	3,436	3,749
Accommodation	8,956	14,853	6,630	12,471
Support services	2,199	2,199	2,304	2,304
Travel and subsistence	3,354	7,441	3,279	7,246
Vehicle costs and services	-	2,860	-	3,160
Other costs	14,276	20,965	17,555	23,697
Subtotal - Cash items	**65,293**	**97,138**	**69,035**	**100,670**
Non-cash items:				
Depreciation	4,404	9,113	6,829	10,841
Amortisation	705	1,721	942	1,968
Impairment of fixed assets	-	370	1,161	1,382
Downward revaluation of fixed assets	-	-	-	12
Write down in value of fixed assets	-	2,203	-	-
Loss on disposal of fixed assets	140	226	177	158
Cost of capital charges	(1,778)	(743)	(838)	285
Auditors remuneration and expenses	350	699	450	828
Provisions provided for in year	4,873	6,846	50,367	55,192
Provision for bad and doubtful debts	3	27	15	(49)
Subtotal - Non-cash items	**8,697**	**20,462**	**59,103**	**70,617**
Operating Cost Statement	**73,990**	**117,600**	**128,138**	**171,287**

11 Programme Costs

	2006-07		2005-06	
	Core Department	Consolidated	Core Department (restated)	Consolidated (restated)
	£000	£000	£000	£000
Rentals under operating leases	1,164	1,419	925	1,169
Interest charges	709	710	1,233	1,276
Interest credits due to pension movements	(46,400)	(46,400)	(20,900)	(20,900)
PFI service charges	-	74,410	-	60,222
Research and development expenditure	31,604	44,184	36,510	49,770
Capital grants	2,830,144	2,830,144	3,205,511	3,205,511
Current grants	2,651,752	2,651,752	1,762,557	1,773,359
Grant in Aid	268,672	268,672	551,296	551,296
EU capital grants	16,886	16,886	22,561	22,561
Subsidies	411,698	411,698	392,210	392,210
Support for passenger rail services[1]	2,087,038	2,087,038	1,170,430	1,170,430
Road network capital maintenance	-	504,632	-	523,426
Road network current maintenance	-	482,704	-	457,515
PFI contract shadow tolls	-	154,733	-	141,146
Eurocontrol payments	44,893	44,893	41,709	41,709
Search and rescue helicopters	-	17,609	-	17,611
Emergency towing vessls	-	10,773	-	10,693
Civil hydrography	-	5,500	-	4,935
Weather bulletins and navigational warnings	-	1,143	-	1,023
Communication and information technology	6,499	13,789	4,466	11,234
Consultancy	18,794	19,731	18,943	20,878
Professional services	64,286	65,369	84,485	85,181
Accommodation	444	9,352	559	9,333
Support services	3,357	3,357	2,349	2,349
Travel and subsistence	1,242	5,526	1,818	6,228
Other costs	41,883	105,594	29,598	74,323
Subtotal - Cash items	**8,434,665**	**9,785,218**	**7,306,260**	**8,614,488**
Non-cash items:				
Depreciation	8,274	261,270	10,862	236,969
Amortisation	103	635	-	391
Impairment of fixed assets	-	10,329	100	1,796
Downward revaluation of fixed assets	-	295	-	241
Write down in value of fixed assets	-	596,197	-	487,996
Loss/(profit) on disposal of fixed assets	17	761	(5)	76
Cost of capital charges	(2,633)	2,697,043	(52,584)	2,502,416
Auditors remuneration and expenses	-	101	-	99
Provisions provided for in year	437,551	647,476	164,302	258,597
Unwinding of discount on provisions	(3,600)	(3,600)	9,166	9,166
Provision for bad and doubtful debts	-	(5,024)	204	1,769
Subtotal - Non-cash items	**439,712**	**4,205,483**	**132,045**	**3,499,516**
Operating Cost Statement	**8,874,377**	**13,990,701**	**7,438,305**	**12,114,004**

[1]This figure includes income of £6.5m being amounts due from Train Operating Companies in respect of operational performance during the financial year. This is presented in line with the accounting policy at Note 1.21.

12 Income

12.1 Income

	2006-07		2005-06	
	Core Department	Consolidated	Core Department	Consolidated (restated)
	£000	£000	£000	£000
Rental income	1,299	4,460	1,571	4,750
Fees and charges to other government departments	5,265	27,190	12,915	32,705
Fees and charges to external customers	1,725	60,693	1,022	38,752
EU income	16,886	21,156	22,367	24,643
Eurocontrol receipts	45,015	45,015	45,033	45,033
Dividends receivable	-	-	5,277	5,277
Interest receivable	29,140	40,047	30,073	39,347
Dartford road crossing user charges	68,365	68,365	69,151	69,151
Speed and red-light camera enforcement	103,837	103,837	114,260	115,326
Vehicle excise duty	17,076	17,076	39,333	39,333
Claims for damages to road network	-	12,717	-	13,086
Income from train operating companies[1]	141,804	141,804	158,164	158,164
Transport for Scotland - Service Level Agreement receipt[2]	133,896	133,896	-	-
Other	14,427	20,739	3,356	7,144
Operating Cost Statement	**578,735**	**696,995**	**502,522**	**592,711**

[1]This figure includes expenditure of £2.2m being amounts due to Train Operating Companies in respect of operational performance during the financial year. This is presented in line with the accounting policy at Note 1.21.

[2]This is a new income stream for 2006-07 relating to the Service Level Agreement relating to the joint procurement of the rail network in Scotland.

12.2 Analysis of income from services provided to external and public sector customers

	Income	Full Cost	2006-07 Surplus/ (deficit)	Income (restated)	Full Cost (restated)	2005-06 Surplus/ (deficit) (restated)
	£000	£000	£000	£000	£000	£000
Department for Transport						
IT services to Communities and Local Government	2,445	2,445	-	9,299	9,299	-
Government Car and Despatch Agency						
Government car service	12,368	12,067	301	11,700	11,578	122
InterDespatch services	3,968	4,018	(50)	3,321	3,412	(91)
Government mail services	1,788	1,838	(50)	1,658	1,679	(21)
Highways Agency						
Road damage claims	12,717	13,030	(313)	13,086	14,412	(1,326)
Road contract income (s278 schemes)	25,577	25,577	-	12,854	12,854	-
Rental income	3,160	940	2,220	3,179	565	2,614
Maritime and Coastguard Agency						
Marine survey	4,634	4,918	(284)	4,115	4,643	(528)
Registration of ships	1,141	1,104	37	930	1,062	(132)
Seafarers' examination and certification	1,910	1,953	(43)	1,570	1,603	(33)
Wider market initiatives and EU twinning projects	1,034	855	179	1,189	947	242
Vehicle Certification Agency						
Product certification	5,034	4,750	284	4,587	4,294	293
Management system certification	1,588	1,580	8	1,531	1,847	(316)
	77,364	**75,075**	**2,289**	**69,019**	**68,195**	**824**

13 Analysis of Net Operating Cost by spending body

		2006-07	2005-06 (restated)
		£000	£000
	Budget	Outturn	Outturn
Spending body:			
Core Department	4,754,002	4,582,463	3,871,875
Government Car and Despatch Agency	-	(201)	(10)
Highways Agency	5,114,167	5,074,167	4,652,260
Maritime and Coastguard Agency	121,526	121,016	117,253
Vehicle Certification Agency	(324)	(338)	64
Non-departmental public bodies	506,059	512,719	569,800
Local Authorities	3,446,848	3,392,058	2,731,876
Other bodies	1,753	2,475	1,270
Operating Cost Statement	13,944,031	13,684,359	11,944,388

14 Intangible Fixed Assets

	Software licences	Development costs	Total
	£000	£000	£000
Cost or valuation			
At 1 April 2006	30,323	892	31,215
Additions	3,641	1,262	4,903
Transfers	1,026	(687)	339
Disposals	(447)	-	(447)
Revaluation	(698)	-	(698)
At 31 March 2007	**33,845**	**1,467**	**35,312**
Amortisation			
At 1 April 2006	5,412	-	5,412
Charged in year	2,356	-	2,356
Disposals	(447)	-	(447)
At 31 March 2007	**7,321**	**-**	**7,321**
Net book value:			
31 March 2007 - Balance Sheet	26,524	1,467	27,991
31 March 2006 - Balance Sheet	24,911	892	25,803

Analysis of intangible fixed assets

The net book value at 31 March of intangible fixed assets comprises:

Core Department 2007	:	£22,856,000
Agencies 2007	:	£5,135,000
Core Department 2006	:	£20,846,000
Agencies 2006	:	£4,957,000

15 Tangible Fixed Assets

	Infrastructure Assets	Assets under Construction	Land and Buildings excluding Dwellings	Dwellings	Plant and Machinery	Furniture and Fittings	Transport Equipment	Information Technology	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation									
Balance at 1 April 2006	86,651,437	489,548	1,986,698	54,476	123,151	2,366	5,867	184,370	89,497,913
Detrunkings	(776,096)								(776,096)
Restated balance at 1 April 2006	85,875,341	489,548	1,986,698	54,476	123,151	2,366	5,867	184,370	88,721,817
Prior year balance adjustment	(72,490)	12,352	-	-	-	-	-	(425)	(60,563)
Additions	-	1,124,869	18,531	2,674	2,473	9	1,727	2,507	1,152,790
Write down of capital additions	-	(598,400)	-	-	-	-	-	-	(598,400)
Disposals	-	(158)	(6,077)	(3,813)	(2,161)	-	(1,430)	(9,123)	(22,762)
Impairment	-	-	(7,029)	(451)	(1,187)	-	-	(2,032)	(10,699)
Transfers	599,573	(618,346)	8,886	347	4,780	-	-	(740)	(5,500)
Reclassifications	-	(4,843)	4,331	(1,113)	344	-	-	1,281	-
Revaluation	6,601,917	-	35,586	7,332	8,951	33	5	(2,732)	6,651,092
CTRL land increase	-	-	140,800	-	-	-	-	-	140,800
Balance at 31 March 2007	93,004,341	405,022	2,181,726	59,452	136,351	2,408	6,169	173,106	95,968,575
Depreciation									
Balance at 1 April 2006	10,453,873		25,494		94,221	584	3,109	78,983	10,656,264
Detrunkings	(90,071)								(90,071)
Restated balance at 1 April 2006	10,363,802		25,494		94,221	584	3,109	78,983	10,566,193
Prior year balance adjustment	(16,702)		-		-	-	-	219	(16,483)
Provided in year	228,330		6,164		4,395	377	878	30,239	270,383
Disposals	-		(25)		(2,049)	-	(1,011)	(9,091)	(12,176)
Transfers	-		-		4	-	-	(361)	(357)
Revaluation	873,202		365		(37)	1	-	(997)	872,534
Balance at 31 March 2007	11,448,632		31,998		96,534	962	2,976	98,992	11,680,094
NBV at 31 March 2007	**81,555,709**	**405,022**	**2,149,728**	**59,452**	**39,817**	**1,446**	**3,193**	**74,114**	**84,288,481**
NBV at 31 March 2006	**75,511,539**	**489,548**	**1,961,204**	**54,476**	**28,930**	**1,782**	**2,758**	**105,387**	**78,155,624**
Asset financing:									
Freehold	79,701,729	293,369	2,147,585	59,452	39,817	1,446	3,193	41,154	82,287,745
Short term lease	-	-	-	-	-	-	-	-	-
On-balance sheet PFI contracts	1,853,980	-	2,143	-	-	-	-	32,960	1,889,083
PFI reversionary interest	-	111,653	-	-	-	-	-	-	111,653
NBV at 31 March 2007	**81,555,709**	**405,022**	**2,149,728**	**59,452**	**39,817**	**1,446**	**3,193**	**74,114**	**84,288,481**

Analysis of tangible fixed assets

The net book value at 31 March of tangible fixed assets comprises:

Core Department 2007	:	£1,883,329,000
Agencies 2007	:	£82,405,152,000
Core Department 2006	:	£1,737,369,000
Agencies 2006	:	£76,418,255,000

15.1 Land and Buildings includes the valuation of Channel Tunnel Rail Link (CTRL) land (£1,795.3m). The Department retains the freehold interest in the land on which the CTRL is being constructed. This value is matched exactly by a liability for deferred income, being lease payments due from 2030 to 2086 from the owners of Sections 1 and 2 of the CTRL (See Note 29 for further details). The contract start date for the development agreement of CTRL was 28 February 1996 and the end date of the concession period is 29 July 2086.

15.2 The Department recognises the Transport Direct web portal as a fixed asset, as it is used to deliver a service to the public. Transport Direct became fully functional in January 2005.

15.3 The trunk road network balances at 1 April 2006 have been restated:

(i) to remove the value of trunk road network assets that have been detrunked and transferred to local authorities. Further information is shown in Note 37.1; and

(ii) to reflect amendments to records held on the Agency's road asset databases. These adjustments are routine in nature and do not arise from changes in accounting policy or from corrections of fundamental errors. They comprise:

- a dimensional variance – an adjustment reflecting better information on the dimensions of individual bridges and other structures: £48.3m; and
- a re-referencing variance – an adjustment arising from the re-measurement of road length: £7.4m.

15.4 The Assets under Construction balance at 1 April 2006 has been adjusted by £12.4m, being reversionary interest, based on the current book value (which is projected forward then discounted back) of the M6 toll road.

16 Investments

16.1 Investments

Public Dividend Capital

	Vehicle and Operator Services Agency	Driver and Vehicle Licensing Agency	Driving Standards Agency	Total
	£000	£000	£000	£000
Balance at 1 April 2006	28,984	19,048	3,475	51,507
Balance At 31 March 2007	**28,984**	**19,048**	**3,475**	**51,507**

Loans

	Vehicle and Operator Services Agency	Driver and Vehicle Licensing Agency	Driving Standards Agency	Humber Bridge Board	Mersey Tunnel	Tyne Tunnel	NATS Group	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2006	58,015	8,455	22,077	334,437	13,160	1,624	95,283	533,051
Advances (see Note 24.2)	17,500	-	15,000	-	-	-	-	32,500
Repayments (see Note 24.2)	(3,978)	(8,455)	(1,451)	(1,082)	(1,525)	(1,624)	(944)	(19,059)
Balance at 31 March 2007	**71,537**	**-**	**35,626**	**333,355**	**11,635**	**-**	**94,339**	**546,492**

Share Investments

	National Air Traffic Holdings Ltd	Other Investments	Total
	£000	£000	£000
Balance at 1 April 2006	68,761	5	68,766
Disposals	-	(5)	(5)
Balance at 31 March 2007	**68,761**	**-**	**68,761**

National Loans Fund

	Civil Aviation Authority	Kings Lynn Harbour Conservancy	Total
	£000	£000	£000
Balance at 1 April 2006	10,056	51	10,107
Loans repayable within one year transferred to debtors	(981)	(4)	(985)
Balance at 31 March 2007	**9,075**	**47**	**9,122**

	£000
Total Investments at 31 March 2007 - Balance Sheet	675,882
Total Investments at 31 March 2006 - Balance Sheet	663,431

The following share investments have not been consolidated into the Department's Resource Accounts because they are outside the Department's consolidation boundary (see Note 36). These investments have been shown at historic cost less any impairment:

(i) 49 per cent of the share capital in National Air Traffic Services Holdings Limited (NATS). On 26 July 2001, the government sold 46 per cent of the shares in NATS Holdings Limited to the Airline Group Limited. An additional 5 per cent of the shareholding was transferred to the Employee Share Ownership Trust;

(ii) 100 per cent of the issued share capital in SRA Investment Company Limited (SICL), which was purchased at its nominal value of £100. SICL is a holding company for the Secretary of State's 50 per cent shareholding (nominal value £1) in Cross London Rail Links Limited (CLRL). The remaining 50 per cent shareholding in CLRL is held by Transport Trading Limited, a subsidiary of Transport for London;

(iii) one share in British Railways Board (Residuary) Limited (nominal value £1); and

(iv) 100 per cent of the issued share capital in the following companies:
Goldings Rail Limited;
Hays Rail Limited;
OQS Rail Limited;
Strutton Rail Limited;
Abbey Rail Limited;
Orchard Rail Limited;
Broadway Rail Limited; and
Westminster Rail Limited.

16.2 Other investments

The Secretary of State holds the following shares.

(i) One special share of £1 in NATS Holdings Limited, which confers certain rights upon the Secretary of State, restricting the creation, issuing, purchase and redemption of shares, and any changes to the rights of the issued share capital, entitling the special shareholder to certain rights on the winding up of the company and preventing the removal of any director appointed by a Crown representative. All the shares are held directly.

(ii) One redeemable special share of £1 in Eurostar (UK) Limited (EUKL). The special share provides the Secretary of State with certain consent rights in respect of EUKL, including amendments to its Memorandum and Articles of Association which affect such rights, resolutions for the winding up of EUKL, the carrying on of any business other than the management and operation of international passenger train services through the Channel Tunnel, and the entry into any agreements by EUKL, which would or might breach the ringfencing obligations in respect of EUKL.

(iii) One special share of 25p in London and Continental Railways Limited (LCR). The share confers certain rights in relation to LCR and its group, including certain changes to the LCR Memorandum and Articles of Association, winding-up processes, payment of distributions, transfers and issues of shares in LCR and variations to share rights. The special share allows the Secretary of State to require a sale or listing of all of the shares in LCR. The special share also entitles the Secretary of State to appoint a director to the Board of LCR and LCR Finance plc.

(iv) One redeemable special share of £1 in Union Railways (North) Limited (URN), which is a subsidiary of LCR. The share carries the right to appoint a director and certain prior consent rights in relation to the business of URN. This share was transferred from Railtrack Group plc in Summer 2002, as a result of a restructuring of the Channel Tunnel Rail Link arrangements.

(v) One redeemable special participating share of £1 in Inter-Capital and Regional Rail Limited (which is the manager of the Eurostar UK business). The share carries the right to 5 per cent of the dividends or other distributions declared as payable on the ordinary shares of that company.

The Secretary of State is a member of Network Rail and has certain special membership rights under Network Rail's Articles of Association. As a company limited by guarantee, Network Rail has no share capital and, therefore, no shareholders. Members of Network Rail do not receive dividends (Note 38).

The Secretary of State is a member of HR Wallingford Group Limited, a company limited by guarantee. Disposal of surplus assets, the alteration of the Memorandum of Association relating to assets and the distribution of income and property require the prior written consent of the Secretary of State.

Further information about all of the Department's investments can be found in each entity's audited annual reports and accounts.

16.3 Humber Bridge Loan

The Secretary of State for Transport provided debt finance for the construction of the Humber Bridge, which is owned and managed by the Humber Bridge Board (a joint local authority board). The bridge was completed in 1981. In 1998, the Department agreed to a restructuring of the loan arrangement with the Board so that, under the *Humber Bridge (Debts) Order 1998*, interest on £240m of the £359m principal due was suspended on 1 April 1998; thereafter, the proportion of the debt being charged with interest increased each year until the whole principal again became subject to the interest charge, which would happen on 1 April 2014. At 31 March 2006, the amount of suspended debt was £153m out of a total of £334m.

During the accounting period, the Board approached the Department to discuss a modification of the terms of the agreement as the bridge's operating performance had not been as positive as predicted and the need to establish a sustainable maintenance fund had arisen. The Humber Bridge Board's agreement to the re-negotiated terms was informed by expert advice they had received on the Bridge's future maintenance needs. Experience of similar structures had indicated a need for remedial maintenance, to reverse the effects of continued exposure to salt. Under the modified terms, the Humber Bridge Board will be able to finance the performance of these works within a timescale which, the Board advises, enables them to be completed most economically and effectively. The Department accepts this assessment.

The terms of the agreement were re-negotiated and agreed between the Secretary of State and the Humber Bridge Board (and approved by HM Treasury) in order to adjust the rate of interest charged on the loan, such that the amount of interest receivable would be equivalent to that raised by applying a rate of 4.25 per cent to the total debt, effective from 1 April 2006. This agreement will be brought into effect by a Statutory Instrument due to be laid before Parliament on behalf of the Secretary of State for Transport in exercise of the power conferred by s1(1) of the *Humber Bridge (Debts) Act 1996*. There will be a further five-yearly review, to inform a new order from 1 April 2011.

Under the arrangements taking effect on 1 April 2006, the Department will continue to pay the cost of capital charge on the total investment at a rate of 7.75 per cent. Over the five-year review period 2006-2011, the resource expenditure is likely to amount to £58.2m. This difference between the values of the cost of capital payable and of the interest receivable represents the likely level of budgetary support provided by the Department for the operation of the Humber Bridge; actual liability for which will arise in the year of account.

Included in this amount is the aggregate sum of £16.6m (Year ended March 2007 £0.937m; March 2008 £2.074m; March 2009 £3.282m; March 2010 £4.529m; March 2011 £5.795m) which represents a reduction in expected cashflows in respect of interest: that is, the difference between the higher rate of interest on the active debt and the lower rate of interest on the whole debt. It is less than 5% of the debtor balance as at 31 March 2007. The values of the interest receivable and of the cost of capital payable will, all other things being equal, decrease over the life of the loan. The value of the support provided will similarly decrease over the life of the loan.

17 Stocks and work-in-progress

	2006-07 Consolidated £000	2005-06 Consolidated £000
Stocks	27,418	25,621
Work-in-progress	16	197
Total - Balance Sheet	**27,434**	**25,818**

18 Debtors

18.1 Analysis by type

	2006-07		2005-06	
	Core Department	Consolidated	Core Department	Consolidated (restated)
	£000	£000	£000	£000
Amounts falling due within one year:				
Trade debtors	23,242	36,021	5,730	16,368
Deposits and advances	633	9,916	654	5,277
VAT debtors	7,445	78,244	7,816	73,654
Other debtors	9,480	13,124	997	2,178
Prepayments and accrued income	125,046	122,887	120,052	124,126
Current part of National Loans Fund loan	985	985	921	921
Amounts due in respect of Consolidated Fund Extra Receipts	6,753	7,318	84,997	84,795
Total - Balance Sheet	**173,584**	**268,495**	**221,167**	**307,319**
Amounts falling due after more than one year:				
Deposits and advances	-	90	-	112
Other debtors	5,000	182,776	10,000	167,316
Prepayments and accrued income	-	23,582	-	17,034
Total - Balance Sheet	**5,000**	**206,448**	**10,000**	**184,462**

18.2 Intra-government balances

	2006-07	2005-06 (restated)	2006-07	2005-06
	Amounts falling due within one year		Amounts falling due after more than one year	
	£000	£000	£000	£000
Balances with:				
Other central government bodies	116,660	100,973	5,000	10,000
Local authorities	15,501	1,244	-	-
NHS trusts	102	263	-	-
Public corporations and trading funds	18,721	1,396	-	-
Bodies external to government	117,511	203,443	201,448	174,462
Total debtors at 31 March - Balance Sheet	**268,495**	**307,319**	**206,448**	**184,462**

19 Cash at bank and in hand

		2006-07		2005-06
	Core Department	Consolidated	Core Department	Consolidated
	£000	£000	£000	£000
Balance at 1 April	243,703	248,583	147,230	159,273
Net change in cash balances	(52,998)	(56,646)	96,473	89,310
Balance at 31 March - Balance Sheet	**190,705**	**191,937**	**243,703**	**248,583**
The following balances at 31 March were held at:				
Office of HM Paymaster General	190,479	190,788	242,550	246,413
Commercial banks and cash in hand	226	1,149	1,153	2,170
Balance at 31 March - Balance Sheet	**190,705**	**191,937**	**243,703**	**248,583**

20 Creditors

20.1 Analysis by type

		2006-07		2005-06
	Core Department	Consolidated	Core Department (restated)	Consolidated (restated)
	£000	£000	£000	£000
Amounts falling due within one year:				
VAT creditor	-	707	-	545
Other taxation and social security	2,364	2,636	2,598	2,879
Trade creditors	19,119	71,852	16,018	97,825
Other creditors	8,048	6,401	8,383	11,748
Accruals and deferred income	385,928	892,046	356,621	811,573
Current part of imputed finance lease element of on-balance sheet PFI contracts	-	42,869	-	35,015
Current part of National Loans Fund loan	985	985	921	921
Third party creditors	12,966	12,967	12,075	13,270
Central payroll	4	4	(10)	(10)
Amounts issued from the Consolidated Fund for Supply but not spent at 31 March	183,715	170,447	236,141	227,408
Consolidated Fund Extra Receipts and other amounts not yet paid to the Consolidated Fund:				
Received	2,806	5,022	7,845	7,904
Receivable	6,753	7,318	84,997	84,795
Total - Balance Sheet	**622,688**	**1,213,254**	**725,589**	**1,293,873**
Amounts falling due after more than one year:				
Imputed finance lease element of on-balance sheet PFI contracts	-	1,163,261	-	938,164
National Loans Fund loans	9,123	9,123	10,107	10,107
Consolidated Fund Extra Receipts creditors	-	47,356	-	36,531
Other creditors	2,336	105,429	2,336	100,375
Channel Tunnel Rail Link land creditor	1,795,300	1,795,300	1,654,500	1,654,500
Total - Balance Sheet	**1,806,759**	**3,120,469**	**1,666,943**	**2,739,677**

20.2 Intra-government balances

	2006-07	2005-06 (restated)	2006-07	2005-06 (restated)
	Amounts falling due within one year		Amounts falling due after more than one year	
	£000	£000	£000	£000
Balances with:				
Other central government bodies	220,456	337,926	149,105	10,107
Local authorities	78,531	36,393	-	-
NHS trusts	3	-	-	-
Public corporations and trading funds	2,837	3,019	-	-
Bodies external to government	911,427	916,535	2,971,364	2,729,570
Total creditors at 31 March - Balance Sheet	**1,213,254**	**1,293,873**	**3,120,469**	**2,739,677**

20.3 National Loans Fund (NLF) loans

NLF loans are repayable by the following bodies:

			2006-07	2005-06
	Civil Aviation Authority Fixed Rates	Kings Lynn Harbour Conservancy Fixed Rates	Total	Total
	£000	£000	£000	£000
Within one year	982	3	985	921
Over one and under two years	1,048	4	1,052	985
Over two and under five years	3,118	14	3,132	3,098
More than five years	4,909	30	4,939	6,024
Total	**10,057**	**51**	**10,108**	**11,028**

The loans are repayable at interest rates varying between 4.3 per cent and 7.875 per cent.

21 Provisions for liabilities and charges

	Early Departure (i)	Greater London Authority (ii)	National Freight Company (iii)	Channel Tunnel Rail (iv)	Highways Schemes (v)	Other (vi)	Total
	£000	£000	£000	£000	£000	£000	£000
Core Department							
Restated balance at 1 April 2006	34,479	-	68,857	1,073,754	-	81,473	1,258,563
Provided in year	7,394	372,000	7,200	32,181	-	28,087	446,862
Provisions released	-	-	-	-	-	(4,438)	(4,438)
Provisions utilised in year	(10,422)	(124,000)	(8,647)	(855,096)	-	(23,437)	(1,021,602)
Unwinding of discount	-	-	(3,600)	-	-	-	(3,600)
Provisions reclassified	-	-	-	-	-	25,000	25,000
Balance at 31 March 2007	**31,451**	**248,000**	**63,810**	**250,839**	**-**	**106,685**	**700,785**
Consolidated							
Restated balance at 1 April 2006	37,485	-	68,857	1,073,754	442,215	96,238	1,718,549
Provided in year	8,037	372,000	7,200	32,181	363,795	31,961	815,174
Provisions released	(110)	-	-	-	(71,798)	(5,045)	(76,953)
Provisions utilised in year	(11,331)	(124,000)	(8,647)	(855,096)	(75,634)	(25,559)	(1,100,267)
Unwinding of discount	-	-	(3,600)	-	-	-	(3,600)
Provisions reclassified	-	-	-	-	(89,302)	25,000	(64,302)
Balance at 31 March 2007	**34,081**	**248,000**	**63,810**	**250,839**	**569,276**	**122,595**	**1,288,601**

(i) Early Departure

These amounts relate to former staff who left the Department's employment before their formal retirement age of 60, and in respect of whom the Department and its Agencies are responsible for making payments until their retirement age. It is assumed that all recipients will survive to their retirement age.

(ii) Greater London Authority

Following the transfer of responsibility for London Underground (LU) to Transport for London (TfL) in 2003, the Department and TfL agreed a level of grant funding to enable TfL to provide sustainable underground train services, operated by LU. The grant is determined and paid in accordance with the *Greater London Assembly Act 1999*, (GLA Act 1999) which does not give the Secretary of State any specific powers to set conditions on the grant. The grant is paid as a single block grant, amounting to £2.64bn in 2006-07; correspondence between the Department and TfL identifies the elements, which comprise that single block grant. This correspondence is disclosed on the Department's web site at the following two links:

http://www.dft.gov.uk/pgr/regional/policy/lt/letter4feb2003fromthedepartm5929 and
http://www.dft.gov.uk/pgr/regional/policy/lt/letter20july2004fromdepartme3726.

The Department's Spring Supplementary Estimate in February 2007 advised Parliament, *inter alia*, that a provision has been increased by £372m in respect of a commitment to fund a deficit in the LU pension schemes as, in 2003, the then Secretary of State gave a commitment to TfL to take account of the need to meet shortfalls in the valuation of the London Regional Transport/LU pension schemes and the costs of pension administration.

Accounting for this provision, under the authority of the *Appropriation Act 2007*, differs from the other elements of the Departmental grant to TfL under the GLA Act 1999. This specific element arises entirely from historic events; whereas TfL's entitlement to other elements of the grant passes in the same period as the grant is paid; as they are recognised as payment for current services in the year of account.

The Department's commitment was profiled over the years 2006-07 to 2009-10 as set out in the grant letter and, as noted in the Spring Supplementary Estimate, expected disbursements of £124m are intended to be made in 2007-08, and £62m in both 2008-09 and 2009-10. The *Appropriation Act 2007* gave Parliamentary authority to the Spring Supplementary Estimate.

(iii) National Freight Company

This provision covers two schemes:

(a) National Freight Company plc (NFC) pension trustee (1 April 2006 - £48.9m; 31 March 2007 - £45.3m) - reimbursement to NFC pension trustees in respect of payments covering unfunded pension service with NFC before 1 April 1975 (*Part III, Transport Act 1980*); and

(b) NFC travel concession (1 April 2006 - £19.9m; 31 March 2007 - £18.5m) - reimbursements to NFC and its subsidiaries for providing travel concession to staff previously employed by the road transport division of British Rail (s21*, Transport Act 1978* and *Schedule 6* to the *Transport Act 1980*).

(iv) Channel Tunnel Rail Link

This provision covers two schemes:

(a) De-risked grants (1 April 2006 - £1,026.9m; 31 March 2007 - £202.6m) - capital grants payable to London and Continental Railways Limited (LCR), as a result of construction milestones being waived to facilitate the raising of finance by LCR; and

(b) Schedule 2 (1 April 2006 - £46.9m; 31 March 2007 - £48.2m) - relates to claims on both sections of the Channel Tunnel Rail Link route that are made by contractors and other parties under the main construction agreement for Section 1 and Section 2 of the rail link. The claims continue to be negotiated and, once completed, the liability will be settled on a contractor by contractor basis.

(v) Highways Schemes

This provision covers planning blight, resulting from the announcement of plans to enhance the road network; discretionary and compulsory acquisition of property required for road schemes and compensation for property owners arising from construction of a road scheme; disputed contractual claims, including compensation for delays, prolongation, liquidated damages, employer's changes, specification issues and the cost of work necessary following the opening of roads for traffic; and work to strengthen bridges in order to comply with minimum legal requirements (currently 40 tonnes), as established by European Union legislation.

(vi) Other

This heading covers a range of smaller provisions, including:

(a) South Eastern Trains (SET) (1 April 2006 - £20m; 31 March 2007 - £45m) - covers the potential liability faced by the Department upon the transfer of the previous SET franchise to the incoming franchisee, Govia. Of this provision, £25m had been treated previously as a creditor and has been reclassified as a provision during 2006-07;

(b) British Railways Board's ex-employees' pensions (1 April 2006 - £26.4m; 31 March 2007 - £23.7m) - reimbursement to trustees of railway pension schemes in respect of pension payments, covering the unfunded proportion of pensions deriving from service with British Railways Board before 1 January 1975 (*Part III, Transport Act 1980*);

(c) Dilapidations of core Department buildings (1 April 2006 - £13.8m; 31 March 2007 - £11.3m) - the Department recognises as a provision its best estimate as at the balance sheet date of the costs of reversing the accumulated wear and tear on the properties it occupies as a tenant, where this is a requirement under the relevant tenancy agreements; and

(d) Highways Agency compensation claims (1 April 2006 - £9.6m; 31 March 2007 - £9m) - third parties who have suffered damage or injury as a result of the road network being damaged and are entitled to submit a claim to the Highways Agency for compensation.

22 General Fund

	2006-07		2005-06	
	Core Department	Consolidated	Core Department (restated)	Consolidated (restated)
	£000	£000	£000	£000
Balance at 1 April	(1,151,173)	38,854,498	(2,060,422)	38,236,231
Prior period adjustment				
Detrunking (see Note 37.1)	-	(436,518)	-	(372,733)
Restated opening balance	**(1,151,173)**	**38,417,980**	**(2,060,422)**	**37,863,498**
Net Parliamentary Funding				
Drawn down	9,081,759	11,502,853	8,031,000	10,138,000
Deemed	236,141	227,408	141,699	139,952
Contingencies Fund	3,500	3,500	-	-
Year end adjustment:				
Supply creditor - current year	(183,715)	(170,447)	(236,141)	(227,408)
Net transfer from operating activities:				
Net Operating Cost	(8,476,342)	(13,684,359)	(7,176,532)	(11,944,388)
CFERs repayable to Consolidated Fund	(15,208)	(33,200)	(95,976)	(109,491)
Non-cash charges:				
Cost of capital	(4,410)	2,696,299	(53,423)	2,502,702
Auditor's remuneration	350	800	450	927
Transfer from Revaluation Reserve	(2)	80,220	1,378	73,582
In-year adjustments relating to prior year transactions:				
Reversionary interest on M6 toll road	-	12,366	-	9,130
Road network	-	(35,497)	-	110,058
Non-network assets	-	-	-	(6,461)
Highways Agency stock	-	-	-	8,805
Other prior year adjustments	-	-	(1,594)	(1,594)
In-year spend on detrunked roads	-	(2,067)	-	(1,181)
Transfers to/from Strategic Rail Authority	-	-	14,318	14,318
Actuarial gain recognised in pension scheme	193,417	193,417	246,800	246,800
Other movements	(5,941)	(5,833)	37,270	37,249
Total - Balance Sheet	**(321,624)**	**39,203,440**	**(1,151,173)**	**38,854,498**

23 Revaluation Reserve

	2006-07 Core Department	2006-07 Consolidated	2005-06 Core Department	2005-06 Consolidated (restated)
	£000	£000	£000	£000
Balance at 1 April	22,854	35,316,728	21,023	31,029,015
Prior period adjustment				
Detrunking (see Note 37.1)	-	(249,507)	-	(213,049)
Restated opening balance	**22,854**	**35,067,221**	**21,023**	**30,815,966**
Arising on revaluation during year - net	3,854	5,777,859	3,209	4,573,170
Amounts released to Operating Cost Statement	-	295	-	253
In-year adjustments relating to prior year transactions:				
Road network	-	(20,289)	-	1,460
Non-network assets	-	-	-	(564)
Other prior year adjustments	-	-	-	25
Transferred to General Fund in respect of realised element of Revaluation Reserve	2	(80,220)	(1,378)	(73,582)
Total - Balance Sheet	**26,710**	**40,744,866**	**22,854**	**35,316,728**

24 Notes to the Cash Flow Statement

24.1 Reconciliation of operating cost to operating cash flows

	Note	2006-07	2005-06 (restated)
		£000	£000
Net Operating Cost		(13,684,359)	(11,944,388)
Adjustment for non-cash transactions	10 & 11	4,225,945	3,570,133
Adjustment for non-cash transactions related to pension schemes		(64,284)	(40,100)
Increase in stock		(1,616)	(7,539)
less: movements in stock relating to items not passing through the Operating Cost Statement (OCS)		-	8,806
(Increase)/decrease in debtors		16,839	(71,850)
less: movements in debtors relating to items not passing through the OCS		5,061	(2,556)
Increase in creditors		300,172	464,103
less: movements in creditors relating to items not passing through the OCS		(13,729)	(207,669)
Use of provision	21	(1,100,267)	(922,368)
Non-cash movement in classification of provision	21	(64,302)	(91,265)
In-year spend on detrunkings		(2,067)	(1,181)
Adjustment for capital and interest element of PFI payments		38,313	33,033
Net cash flow from operating activities		**(10,344,294)**	**(9,212,841)**

24.2 Analysis of capital expenditure and financial investment

	Note	2006-07	2005-06 (restated)
		£000	£000
Intangible fixed asset additions	14	(4,903)	(6,861)
Tangible fixed asset additions	15	(1,152,790)	(787,554)
Proceeds of disposal of fixed assets		9,604	12,373
Capital element of lands provision		83,871	70,048
Advances of investments	16	(32,500)	(38,800)
Repayments of investments	16	19,059	21,683
Repayments of loans for National Loans Fund		921	658
Net cash flow from capital expenditure and financial investment		**(1,076,738)**	**(728,453)**

24.3 Analysis of the Department's capital expenditure, financial investment and associated appropriations in aid

	Capital Expenditure	Loans	Appropriation in Aid	Net Total
	2006-07			
	£000	£000	£000	£000
Request for Resources 1	1,157,693	32,500	(24,432)	1,165,761
Total	**1,157,693**	**32,500**	**(24,432)**	**1,165,761**
	2005-06 (restated)			
Request for Resources 1	1,028,915	38,800	(23,557)	1,044,158
Total	**1,028,915**	**38,800**	**(23,557)**	**1,044,158**

24.4 Analysis of financing

	2006-07	2005-06
	£000	£000
From Consolidated Fund (Supply): current year	11,502,853	10,138,000
Advances from the Contingencies Fund	836,500	-
Repayments to the Contingencies Fund	(833,000)	-
Loans received from the National Loans Fund	-	4,000
Repayments of loans from the National Loans Fund	(921)	(658)
Capital element of payments in respect of on-balance sheet PFI contracts	(38,313)	(33,033)
Net Financing	**11,467,119**	**10,108,309**

24.5 Reconciliation of Net Cash Requirement to increase/(decrease) in cash

	2006-07	2005-06
	£000	£000
Net Cash Requirement (see Note 4)	(11,559,814)	(10,050,545)
From the Consolidated Fund (Supply) - current year	11,502,853	10,138,000
From the Contingencies Fund	3,500	-
Amounts due to the Consolidated Fund - received in a prior year and paid over	(7,904)	(7,833)
Amounts due to the Consolidated Fund - received and not paid over	5,022	7,904
Decrease in third party balances	(303)	1,784
Increase/(decrease) in cash	**(56,646)**	**89,310**

25 Notes to the Statement of Operating Costs by Departmental Aim and Objectives

25.1 Programme grants and other current expenditure have been allocated as follows:

	2006-07	2005-06 (restated)
	£000	£000
Main objective		
Objective 1 - Support the economy through the provision of efficient transport systems	7,401,816	6,189,050
Objective 2 - Deliver improvements to transport systems	3,210,916	2,743,054
Objective 3 - Safety and environment	3,316,412	3,111,588
Objective 4 - Improve cost effectiveness of transport investment choices	61,557	70,313
	13,990,701	**12,114,005**

25.2 Capital employed by Departmental aim and objectives during the year

	2006-07	2005-06 (restated)
	£000	£000
Main objective		
Objective 1 - Support the economy through the provision of efficient transport systems	37,856,267	31,916,551
Objective 2 - Deliver improvements to transport systems	114,112	300,447
Objective 3 - Safety and environment	41,198,928	40,555,698
Objective 4 - Improve cost effectiveness of transport investment choices	778,998	712,504
	79,948,305	**73,485,200**

26 Capital commitments

	2006-07		2005-06	
	Core Department	Consolidated	Core Department	Consolidated
	£000	£000	£000	£000
Contracted capital commitments at 31 March for which no provision has been made	21,956	750,287	237	522,354
	21,956	750,287	237	522,354

27 Commitments under leases

Operating leases

Commitments under operating leases to pay rentals during the following year are analysed according to the period in which the lease expires, as follows:

	2006-07		2005-06	
	Core Department	Consolidated	Core Department	Consolidated
	£000	£000	£000	£000
Land and buildings:				
Expiry within 1 year	334	908	6	1,527
Expiry after 1 year but within 5 years	12,639	14,571	11,136	13,014
Expiry thereafter	1,811	10,959	4,082	13,337
	14,784	26,438	15,224	27,878
Other:				
Expiry within 1 year		643		999
Expiry after 1 year but within 5 years		373		1,142
Expiry thereafter		-		-
		1,016		2,141

28 Commitments under PFI contracts

28.1 On-balance sheet

The Highways Agency has entered into the following on-balance sheet PFI contracts for the design, build, finance and operation of sections of the national road network:

- M1-A1 Yorkshire link;
- A1(M) Alconbury to Peterborough;
- A419/A417 Swindon to Gloucester;
- A50/A564 Stoke to Derby link;
- M40 Junctions 1-15;
- A19 Dishforth to Tyne Tunnel;
- A30/A35 Exeter to Bere Regis;
- A69 Carlisle to Newcastle;
- A1(M) Darrington to Dishforth;
- A249 Iwade to Queenborough;
- National Traffic Control Centre; and
- National Roads Telecommunications Services

The substance of PFI contracts is that the Highways Agency has a finance lease, with the relevant asset being recognised as a fixed asset on the Highways Agency's balance sheet. Payments under PFI contracts comprise two elements: imputed finance lease charges and service charges.

	2006-07	2005-06 (restated)
	£000	£000
Imputed finance lease obligation under on-Balance Sheet PFI contracts comprise:		
Rentals due within 1 year	115,080	93,377
Rentals due after 1 year but not more than 5 years	448,733	373,508
Rentals due after 5 years	1,552,257	1,195,797
	2,116,070	**1,662,682**
Interest element	(907,792)	(689,503)
	1,208,278	**973,179**

28.2 Charges to the Operating Cost Statement and future commitments

The total amount charged in the Operating Cost Statement in respect of the service element of on-balance sheet PFI transactions was £154.7m (2005–06: £141.3m).

Service elements to which the Highways Agency is committed during 2006–07 are shown in the table below, analysed by the period during which the commitment expires.

	2006-07	2005-06 (restated)
	£000	£000
Expiry within 2 to 5 years	17,313	16,013
Expiry within 6 to 15 years	37,364	-
Expiry within 16 to 20 years	155,772	104,418
Expiry within 21 to 25 years	-	42,419
Expiry within 26 to 30 years	12,882	10,115
	223,331	**172,965**

29 Other financial commitments

The Department is committed to paying a grant of £2,554m to Network Rail, in accordance with the Deed of Grant agreed in 2006-07.

At 31 March 2007, 17 franchise agreements had been entered into for the provision of train services. The Strategic Rail Authority had entered into 12 of these agreements, which have been transferred to the Department. Subsequent to this transfer, the Department has entered into 5 franchise agreements with train operating companies for the provision of train services.

The amounts falling due in the year to 31 March 2008 are as follows:

	2006-07	2005-06
	£000	£000
Expiry within 1 year	414,798	207,597
Expiry after 1 year but within 5 years	2,703,561	3,155,996
Expiry thereafter	1,111,274	1,013,605
	4,229,633	**4,377,198**

The Department has entered into a contract for the Channel Tunnel Rail Link (CTRL). This comprises a concession agreement with London and Continental Railways Limited (LCR), under which LCR will construct the CTRL and operate Eurostar UK Limited (EUKL). The classification of this contract is in accordance with HM Treasury guidance under the terms of *FRS 5.*

LCR is building the CTRL in two phases: the southern section is complete and construction of the northern section is in progress. LCR retains ownership of the southern section (Section 1) and will retain ownership of the northern section on completion (Section 2) through its subsidiaries. LCR will also retain, through a number of associated private sector entities, the operation of EUKL.

It was originally anticipated that construction would be financed substantially by capital grants. The financing arrangements were detailed in the Development Agreement. In accordance with the Agreement, in the years to 31 March 2007, the Department paid LCR deferred grants totalling £2,225m for Section 2. The Department has no further financial commitments for CTRL (commitment as at March 2006: £834m).

30 Financial instruments

FRS 13 requires disclosure of the role that financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities.

Due to the largely non-trading nature of its activities and the way in which government departments are financed, the Department is not exposed to the degree of financial risk faced by many business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which *FRS 13* mainly applies. The Department has very limited powers to borrow or invest surplus funds. Financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the Department in undertaking its activities.

As permitted by *FRS 13*, debtors and creditors that mature, or become payable within 12 months from the balance sheet date, have been omitted from the currency profile.

Liquidity risk

The Department's net revenue resource requirements are financed by resources voted annually by Parliament. The Department is not, therefore, exposed to significant liquidity risks.

Interest-rate risk

The Department is not exposed to significant interest-rate risk because its financial assets and liabilities carry nil or fixed rates of interest.

Currency risk

The Department undertook a small number of foreign currency transactions and, therefore, is not exposed to significant exchange rate risk.

Fair values

A comparison of the Department's financial obligations in respect of its PFI contracts in terms of book and fair values is shown below.

	31 March 2007		31 March 2006	
	Book value	Fair value	Book value	Fair value
	£000	£000	£000	£000
Financial liabilities				
Finance lease obligations, including on-Balance Sheet PFI imputed finance lease obligations	1,208,278	628,724	973,179	479,602

Basis of fair valuation

The fair value has been calculated using the net present value (NPV) of future capital payments at a discount rate of 6 per cent per annum (which is the rate implied in the contracts).

31 Contingent liabilities

In accordance with government policy, no buildings included in tangible fixed assets in the balance sheet are insured. Other contingent liabilities are shown below.

The value shown is the best estimate of the expected cost of settling the liability, in the unlikely event that the contingent liability becomes an actual liability. The exceptions are the two cases for which the maximum exposure is indicated. (31.1 and 31.3).

	31 March 2007	31 March 2006
	£m	£m
31.1 Channel Tunnel Rail Link - Government guarantee in respect of bonds issued by London and Continental Railways Limited (LCR). The bonds are repayable in 2010, 2028, 2038 and 2051. The risk of a call on the guarantee depends on LCR's financial performance.	3,750	3,750
31.2 Guarantee in respect of lease obligations of Eurostar (UK) Limited at Ashford International Passenger Station to 2022.	-	60
31.3 Channel Tunnel Rail Link - Guarantee issued in respect of track access payments, to support securitisation of this revenue stream to finance Section 2. Track access charges are payable over approximately 50 years. The probability of a call will depend on LCR's cash flow performance over that period.	630	630
31.4 Other contingent liabilities[1].	1,113	6
31.5 Possible obligations in relation to land and property acquisition.	464	508
31.6 Possible obligations in relation to tunnels.	124	-
31.7 Possible obligations in relation to engineering and construction services.	5	56
31.8 Third-party claims.	15	17
31.9 General Lighthouse Authorities' pension fund deficiency.	305	256
31.10 The Secretary of State has given a guarantee to the owners of certain properties on the route of the proposed Crossrail extension that their properties will be purchased should the *Crossrail Hybrid Bill* receive Royal Assent.	6	16

[1]This includes contingent liabilities where disclosure of details could prejudice the outcome of the case

The Department has responsibility for a number of legacy pension schemes formerly part of the British Railways Board. The Department is required to fund the employer's share of any deficits arising on these schemes (see note 39).

32 Contingent liabilities not required to be disclosed under FRS 12 but included for Parliamentary reporting and accountability

	1 April 2006	Increase/ (decrease) in year	Liabilities crystallised in year	Obligation expired in year	31 March 2007	Amount reported to Parliament[1]
	£000	£000	£000	£000	£000	£000
Guarantees (listed)	83,800	3,900	-	-	87,700	Unquantified
Letters of comfort (listed)	9,700,000	(800,000)	-	-	8,900,000	Unquantified
Indemnity (listed)	12,500,000	900,000	-	-	13,400,000	22,000,000

[1]Note that not all quantifiable items were quantified when the item was reported to Parliament. See below for more details.

The Department has entered into the following quantifiable contingent liabilities by offering guarantees, indemnities or by giving letters of comfort. None of these items is a contingent liability within the meaning of *FRS 12* and the amounts shown are as reported to Parliament.

32.1 Quantifiable guarantees and indemnities

	31 March 2007	31 March 2006	Amount reported to Parliament by Departmental minute
	£m	£m	£m
Guarantees			
Should the International Maritime Organisation building be partially or completely destroyed, the government would be obliged to reconstruct the building, suspend or reduce the rent for a period of three years and fund alternative accommodation.	68	68	Unquantified
A guarantee has been offered to the Air Travel Trust Fund to enable the trustees to borrow to meet the claims of package holiday makers in the event of the failure of tour operators.	20	16	31
Letters of comfort			
Letters of comfort were originally issued to the Strategic Rail Authority in relation to financial support for Network Rail's borrowing. Subsequently, these responsibilities transferred to the Secretary of State. The credit support arrangements comprise of standby credit facilities and financial indemnity in support of Network Rail's Debt Issuance Programme. As at 31 March 2007, the arrangements supported Network Rail's net debt of £19.8bn.			
A standby credit facility and related agreements to enable Network Rail to raise medium-term notes for its short and medium-term financing requirements. The support	4,900	5,700	10,000

arrangements expire in 2009.

A standby credit facility, with a term of 50 years, to act as a long term contingency buffer.	4,000	4,000	4,000
Letters of indemnity have been issued in respect of non-statutory liabilities incurred by staff appointed as directors of Cross London Rail Links Limited (CLRL) and as a director or company secretary of SRA Investment Company Limited.	-	-	Unquantified
Indemnity			
The Department has provided a financial indemnity in support of Network Rail's Debt Issuance Programme.	13,400	12,500	22,000

32.2 Unquantifiable guarantees and indemnities

Statutory guarantees

Agreements were entered into by the Director of Passenger Rail Franchising (novated to the Strategic Rail Authority and then to the Department), prior to the privatisation of each of the three rolling-stock companies (ROSCOs). It is not possible to quantify the liabilities associated with these agreements because they will depend on the circumstances that arise at the time.

Guarantees were given by the Strategic Rail Authority (and previously by the Director of Passenger Rail Franchising), and novated to the Department, in relation to new, replacement and extended passenger rail franchise agreements. It is not possible to quantify the potential liability that might arise as a result of these undertakings.

Guarantees were given in respect of certain legacy pension schemes from the British Railways Board that any shortfalls would be met. Details are disclosed in Note 39.

Letters of comfort

Letters of comfort have been issued, providing an indemnity in relation to legal action taken against the judge, counsel, solicitors and secretariat to the Thames Safety Inquiry and the Victim Identification Inquiry, following major transport disasters. Letters of comfort have been issued in support of each of the three London Underground PPP contracts, clarifying the Secretary of State’s role in relation to the Greater London Authority and Transport for London.

Other

The Department has a statutory liability under the *Channel Tunnel Act 1987* that if, after termination of the Channel Tunnel concession, it appears to the Secretary of State that the operation of the Tunnel will not be resumed in the near future, he shall take the necessary steps to ensure that the land is left in a suitable condition in accordance with the scheme.

Details on restricted contingent liabilities are not shown due to their sensitivity to commercial confidentiality and national security.

33 Losses and special payments

33.1 Losses statement

	2006-07	2005-06
Total number of cases	3,618	4,279
	£000	£000
Total amount	12,610	15,320

Details of individual cases over £250,000 in 2006-07 are shown below:

Administrative write-offs

	£000
Write-off of book keeping errors in respect of s278 of the *Highways Act 1980* schemes	1,012

Claims abandoned

The Department has renegotiated the terms of the loan agreement with the Humber Bridge Board effective from April 2006 until April 2011. This renegotiation led to the Department charging interest at a reduced rate, applied to the total debt. However, the Department will continue to be charged cost of capital using the previous, higher rate. Full details can be found in Note 16.3.

	£000
Reduction in cash inflows for the year	937

33.2 Special payments

	2006-07	2005-06
Total number of cases	61	63
	£000	£000
Total amount	487	560

34 Related party transactions

34.1 The Department is the parent of the Highways Agency, the Maritime and Coastguard Agency, the Government Car and Despatch Agency, the Vehicle Certification Agency and a number of sponsored bodies listed in Note 36. These bodies are regarded as related parties with which the Department has had various material transactions during the year.

34.2 In addition, the Department has had a small number of transactions with other government departments, principally the Communities and Local Government, Treasury Solicitors, the Department of Constitutional Affairs, the Department for Trade and Industry, the Valuation Office Agency, the Ministry of Defence, NATS Holdings Limited, CLRL and a number of local authorities.

34.3 Some Board members and key managerial staff are related to persons employed by bodies with which the Department has had financial dealings. These related party relationships, although between two organisations which have had financial dealings, do not in themselves involve any personal financial gain by the individuals concerned. No Board members or key managerial staff had any direct interest in organisations or suppliers in receipt of grants or other payments.

34.4 No Board members, key managerial staff or other related parties have undertaken any material transactions with the Department during the year other than those reported.

35 Third-party assets

The Highways Agency, under s278 of the *Highways Act 1980*, receives payment in advance of works. These amounts are paid into interest-bearing Escrow accounts at Lloyds TSB Bank. They are not Agency assets and are not included in the accounts.

Monies are drawn down from the Escrow accounts by the Highways Agency as work progresses.

The amounts held are shown in the table below:

	31 March 2006	Gross Inflows	Gross Outflows	31 March 2007
	£000	£000	£000	£000
Lloyds TSB Escrow bank accounts	16,160	9,643	(6,746)	19,057

36 Entities within and outside the Departmental boundary

36.1 The following Executive Agencies, Advisory Bodies and Tribunals have been consolidated within these accounts:

Executive Agencies

Highways Agency

Maritime and Coastguard Agency

Government Car and Despatch Agency

Vehicle Certification Agency

Advisory Bodies

Commission for Integrated Transport

Disabled Persons' Transport Advisory Committee

Advisory NDPBs are expert bodies normally established to advise Ministers and officials on specific policy areas for which expertise does not exist within the Department. Most members of such bodies are unpaid, although several bodies' chairmen and members receive a daily fee for attendance at meetings and other work.

Tribunals

Traffic Commissioners and Licensing Authorities (Traffic Areas).

36.2 The following bodies have not been consolidated within the accounts for the Department. Financial information for these bodies can be obtained from their separately published annual reports and accounts.

Trading Funds

Driving Standards Agency

Driver and Vehicle Licensing Agency

Vehicle and Operator Services Agency

Public Corporations

British Railways Board (Residuary) Limited

Civil Aviation Authority

London and Continental Railways Limited
SRA Investments Company Limited

Executive Non-Departmental Public Bodies
British Transport Police
Passenger Focus
Railway Heritage Committee

Other Entities
Channel Tunnel Rail Link Complaints Commissioner
Cross London Rail Links Limited
General Lighthouse Fund, incorporating:
- Commissioner for Irish Lights;
- Northern Lighthouse Board; and
- Trinity House Lighthouse Service

Marine and Aviation Insurance (War Risks) Fund
NATS Holdings Limited
Network Rail Limited
Office of the PPP Arbiter
Port of London Authority

37 Restatement of prior year balances

37.1 Highways Agency

The trunk road network balance at 1 April 2006 has been restated by £686m due to detrunking of parts of the road network, in accordance with merger accounting principles.
These prior year adjustments gave rise to the following restatement of balances at 31 March 2006:

	As previously stated	Adjustment	As Restated
	£000	£000	£000
Trunk road network - cost	86,651,437	(776,096)	85,875,341
Trunk road network - depreciation	(10,453,874)	90,071	(10,363,803)
	76,197,563	**(686,025)**	**75,511,538**
General Fund	39,951,861	(436,518)	39,515,343
Revaluation Reserve	35,284,654	(249,507)	35,035,147

37.2 Change in accounting treatment - 1974 Section British Rail Pension Scheme

The 1974 Section British Rail Pension Scheme is now being accounted for as a pension liability using *FRS 17*, whereas it had previously been accounted for as a provision under *FRS 12*. The Department is both an employer and guarantor for this scheme. The previous accounting treatment reflected the guarantor relationship, but it has now been decided that the Department's relationship is in substance closer to that of an employer. This change has led to the restatement of some of the closing balances in the 2005-06 accounts.

The restatements to the closing balances for 2005-06 are shown below:

	£000
Provisions for liabilities and charges	62,675
Pension liability	(25,700)
	36,975
General Fund	36,975
	36,975

37.3 Change in allocation to Objective for DVO Group

Following a review by the Driver and Vehicle Operator Group it has been determined that work carried out by this group properly falls into Objective 3, though was previously allocated to Objective 4. For comparative purposes, the 2005-06 figures have been restated as follows:

	Objective 3	Objective 4
	£000	£000
Statement of Net Operating Costs by Objective - Expenditure	218,650	(218,650)
Statement of Net Operating Costs by Objective - Income	(48,062)	48,062
Note 25.1	212,968	(212,968)
Note 25.2	140,894	(140,894)

38 Network Rail

38.1 Body outside the consolidation boundary

Many functions of the Strategic Rail Authority transferred to the Department in 2005-06. This included a transfer of the lead responsibility for the Government's relationship with Network Rail Limited (Network Rail), a private company limited by guarantee, which is the parent company of the Network Rail group of companies. Network Rail owns and operates the main rail network in Great Britain. Its primary aim is to provide a safe, reliable and efficient rail infrastructure. The main focus of Network Rail is on the operation, maintenance and renewal of Britain's railway, and facilitating enhancements. Whilst operating on commercial lines, Network Rail is a not-for-dividend company and all profits made will be reinvested in the industry. Its members include the train operating companies and other stakeholders. The Secretary of State is a special member with no rights to any dividend or other distribution.

The Department's principal financial interest in Network Rail arises from indemnities issued in support of Network Rail's debt. Agreements were made between the Department and Network Rail in connection with the acquisition of Railtrack plc, which relate to the financial support provided to Network Rail, together with its output and enhancement obligations. These agreements operate alongside the contractual arrangements that exist between the Department and Network Rail. The Department considers that the likelihood of Network Rail having to rely upon letters of comfort for financial support is remote. Consequently, these agreements represent contingent liabilities and are disclosed under Note 32.1. The support facilities for Network Rail's borrowings are:

- a financial indemnity mechanism (FIM) in respect of borrowings of Network Rail Infrastructure Finance plc (NRIF), under which £13.4bn had been borrowed at 31 March 2007. The FIM is available until 2052. The indemnity also covers guarantees provided by NRIF in respect of certain financial obligations of Network Rail Infrastructure Limited; and
- a support facility in respect of the Medium Term Note Programme arranged through Network Rail MTN Finance plc, under which £4.9bn had been borrowed at 31 March 2007.

Network Rail is outside the Department's resource accounting boundary and is not consolidated in these accounts. In order to maintain openness and transparency regarding the relationship between the Department and Network Rail, the summary results and other details concerning Network Rail are shown below. Copies of the financial statements of Network Rail can be obtained from the Company Secretary, 40 Melton Street, London NW1 2EE.

Network Rail reports to its members in the manner of a listed plc and, therefore, follows European Union regulations requiring companies listed in any member state to adopt International Financial Reporting Standards (IFRS).

38.2 Key Financial Figures

Profit and loss account for year ended 31 March 2007

	2006-07	2005-06
	£m	£m
Revenue[1]	5,795	3,837
Operating costs	(3,505)	(3,357)
Operating profit	2,290	480
Revaluation gains and profits on disposals of properties	102	78
Net investment and finance costs	(918)	(792)
Profit/(loss) before tax	1,474	(234)
Taxation	(442)	(21)
Profit/(loss) for the year	**1,032**	**(255)**

[1]Revenue includes £3,103m (2005-06: £1,983m) received directly from the Department for Transport and £2,206m (2005-06: £1,515m) received from train operating companies (TOCs) for access charges.

Balance sheet as at 31 March 2007

	2006-07	2005-06
	£m	£m
Non-current assets		
Intangible assets	75	77
Property plant and equipment - the railway network	28,304	25,991
Investment property	948	892
Financial assets	57	245
	29,384	27,205
Current assets	876	571
Current liabilities	(5,197)	(6,292)
Non-current liabilities	(20,008)	(17,721)
Net assets	**5,055**	**3,763**
Equity		
Revaluation reserve	3,606	3,696
Retained earnings	1,264	3
Other reserves	185	64
	5,055	**3,763**

The Department paid TOCs £2,087m (2005-06: £1,170m), in accordance with the conditions of its franchising contracts with them. These payments are disclosed as support for passenger rail services in Note 11 to the Resource Accounts.

39 Pension schemes

The Department participates in the following defined benefit pension schemes. Some of the Department's employees are members of the BR Shared Cost Section and the OPRAF Shared Cost Section of the Railways Pension Scheme. The Department is the scheme employer for the 1994 Section of the Railways Pension Scheme. It applies *FRS 17* to these sections. It has also offered guarantees to legacy defined benefit schemes from the British Railways Board (BRB), in which the Department has no employees participating. These are the: British Railways Superannuation Fund; Great Western Railway Supplemental Pensions Reserve Fund; Great Western Railway Salaried Staff Widows' and Orphans' Pension Society; London and North Western Railway Provident Society for Providing Pensions for Widows and Orphans of Salaried Staff; Great Western Railway Inspectors' and Foremans' Special Pension Fund; and Great Northern Railway Superannuation Fund. It applies *FRS 17* to any scheme that is in deficit. As at 31 March 2007, only the Great Western Railway Salaried Staff Widows' and Orphans' Pension Society was in deficit. In accordance with *FRS 17*, the share of any deficits or recoverable surplus in the pension funds is recognised on the balance sheet. Interim valuations have been carried out as at 31 March 2007 by independent qualified actuaries Mercer Human Resource Consulting Limited and the Government Actuary's Department on the Department's defined benefit schemes, for the purpose of providing these disclosures.

Analysis of pension liability recognised on the Balance Sheet

	2006-07	2005-06
	£m	£m
Deficit at beginning of period	(373.7)	(660.6)
Contributions paid	18.8	20.3
Current service cost	(0.9)	(1.1)
Other finance income	46.4	20.9
Employees share of deficit	(0.6)	(0.9)
Actuarial gain	194.0	247.7
Deficit at end of period	**(116.0)**	**(373.7)**

The deficit comprises the following balances:

	2006-07	2005-06
	£m	£m
Scheme:		
BR Shared Cost Section	4.0	0.1
OPRAF Shared Cost Section	-	(2.7)
1974 Section	(22.7)	(24.6)
1994 Section	(97.0)	(346.0)
Great Western Railway Salaried Staff Widows' and Orphans' Pension Society	(0.3)	(0.5)
Total deficit at the end of the period	**(116.0)**	**(373.7)**

1994 Section

The 1994 Section represents the majority, by value, of the Department's financial relationships with pension schemes. It covers the pensioners and deferred pensioners of the BRB at 1 April 2004. It is a defined benefit scheme and, although it is part of the industry-wide Railways Pension Scheme, its assets and liabilities are identified separately from the remainder of the scheme. Further details are shown below.

The last actuarial reviews for funding purposes was carried out as at 31 December 2004 by independent qualified actuaries Watson Wyatt Partners, using the projected unit method. Assets and accrued liabilities were valued using the market-related method.

Financial assumptions

The latest actuarial valuation for the section as at 31 December 2004 was updated to 31 March 2007 by an independent qualified actuary, using the following assumptions, as shown in the table below:

	31 March 2007	31 March 2006	31 March 2005	31 March 2004
	%pa	%pa	%pa	%pa
Inflation	3.00	2.85	2.8	2.7
Rate of increase of pensions in payment	3.00	2.85	2.8	2.7
Rate of increase for deferred pensioners	3.00	2.85	2.8	2.7
Discount rate	5.40	4.95	5.4	5.5

The assets in the scheme and the expected rates of return for the schemes were:

			Net Assets			Expected rate of return
	31 March 2007	31 March 2006	31 March 2005	31 March 2007	31 March 2006	31 March 2005
	£m	£m	£m	%pa	%pa	%pa
Equities	2,603	2,622	2,257	8.0	7.6	8.1
Bonds	1,705	1,645	1,630	5.0	4.6	5.0
Properties	350	375	338	6.5	6.1	6.5
Other	260	257	225	5.25	4.5	4.7
Total market value of assets	**4,918**	**4,899**	**4,450**	**6.3**	**6.2**	**6.6**
Present value of scheme liabilities	(5,015)	(5,245)	(5,080)			
Total deficit	**(97)**	**(346)**	**(630)**			

Components of the defined benefit cost for the period ended 31 March 2007:

Analysis of the amount charged to other finance income:

	31 March 2007	31 March 2006
	£m	£m
Interest on Fund liabilities	250	263
Expected return on Fund assets	(297)	(285)
Net credit to other finance income	**(47)**	**(22)**

Analysis of amounts recognised in Statement of Recognised Gains and Losses (SRGL):

	31 March 2007	31 March 2006
	£m	£m
Gain on assets	112	545
Experience loss on liabilities	(67)	(39)
Gain/(loss) on change of assumption	142	(260)
Total gain recognised in SRGL before adjustment for tax	**187**	**246**

Experience gains and losses:

	31 March 2007	31 March 2006
Gain on section assets		
(i) Amount (£m)	112	545
(ii) % of section assets at end of period	2%	11%
Experience loss on section liabilities		
(i) Amount (£m)	(67)	(39)
(ii) % of liabilities assets at end of period	1%	1%
Total actuarial gain recognised in SRGL		
(i) Amount (£m)	180	246
(ii) % of section liabilities at end of period	4%	5%

Analysis of the movement in deficit in the section during the period

	31 March 2007	31 March 2006
	£m	£m
Deficit in employer's share in the section at beginning of period	(346)	(630)
Contributions paid	15	16
Other finance income	47	22
Actuarial gain	187	246
Deficit in employer's share in the section at end of period	**(97)**	**(346)**

Analysis of pension liability

	31 March 2007	31 March 2006
	£m	£m
Balance at 1 April	(346)	(630)
Items charged to income and expenditure reserve	62	38
Gain on assets	112	545
Experience loss in liabilities	(67)	(39)
Gain/(loss) on change of assumptions	142	(260)
Result for period	**(97)**	**(346)**

Other schemes

The Department’s relationships with other schemes are described below. Given the relatively low value of the balances and transactions in respect of these schemes, detailed disclosures are not provided.

Railways Pension Scheme: BR and OPRAF Shared Cost Sections

The BR Shared Cost Section covers most of BRB (Residuary) Limited’s employees, and some former Strategic Rail Authority employees. The OPRAF Shared Cost Section covers some of the former Strategic Rail Authority's employees, primarily those who were formerly employed by the franchising director. Further details are shown below.

The BR Shared Cost Section and the OPRAF Shared Cost Section were merged with effect from 30 March 2007, by transferring the assets and liabilities of the OPRAF Section into the BR Section.

The last actuarial reviews for funding purposes of both Sections were performed as at 31 December 2004 by independent qualified actuaries Watson Wyatt Partners, using the projected unit method. Assets and accrued liabilities were valued using the market-related method.

BR Shared Cost Section

The market value of assets, net of additional voluntary contribution (AVC) amounts, of the BR Section at 31 December 2004 was £34.192m. This is approximately 1.5 per cent lower than the corresponding value of the projected accrued liabilities (after allowing for future salary increases but before allowing for agreed future contribution reductions and AVC matching by the Department). In this calculation, an investment return of 6.8 per cent on existing assets was assumed over the 20 year future mean term of liabilities.

The actuary estimated the ongoing funding cost of the BR Section for future years to be met by both the employees and the employer at 29.3 per cent of Section pay, defined as pensionable pay less 150 per cent of the basic state pension. Over the 8 months to 30 November 2006, member contributions were 9.2 per cent of Section Pay, and employer contributions were suspended on actuarial advice. Over the 4 months to 31 March 2007, member contributions were 12.0 per cent of Section Pay, and employer contributions were 18.0 per cent of Section Pay, in respect of most members.

The Fund is closed to new members.

OPRAF Shared Cost Section

The market value of assets (net of AVC amounts) of the OPRAF Section at 31 December 2004 was £12.396m. The market value of assets was estimated as approximately 78 per cent of the corresponding value of the projected accrued liabilities (after allowing for future salary increases). In this calculation, it was assumed that the investment return on existing assets over the future mean term of liabilities of 21.1 years would be 6.8 per cent.

The ongoing funding cost of the OPRAF Section for future years, to be met by both the employees and the Department, was estimated by the actuary at 28.6 per cent of Section pay, defined as pensionable pay less 150 per cent of the basic state pension. Over the 8 months to 30 November 2006, member contributions were 12.85 per cent of Section pay, and employer contributions were 29.33 per cent of Section pay. Over the 4 months to 31 March 2007, member contributions were 12.0 per cent of Section pay, and employer contributions were 28.49 per cent of Section pay, plus a contribution of £0.215m payable on 31 March 2007.

The Fund is open to new members.

Other schemes

The Department is also responsible for funding any shortfalls in six historic funded pension arrangements, which relate almost entirely to individuals drawing pensions. There are 48 active members participating in these schemes. They are legacy defined benefit schemes from the BRB and the Department has no employees participating in them. The latest actuarial valuations of these funds have all been carried out either as at 31 December 2003, 31 December 2004 or 31 December 2005.

The schemes concerned are the:

- British Railways Superannuation Fund;
- Great Western Railway Supplemental Pensions Reserve Fund;
- Great Western Railway Salaried Staff Widows' and Orphans' Pension Society;
- London and North Western Railway Provident Society for Providing Pensions for Widows and Orphans of Salaried Staff;
- Great Western Railway Inspectors' and Foremans' Special Pension Fund; and
- Great Northern Railway Superannuation Fund.

The position of the schemes, which are material for the Department's accounts at the latest formal actuarial valuation date, is summarised below:

Scheme	Date of Last Valuation	Assets	Liabilities	Employer Contribution
		£m	£m	
British Railways Superannuation Fund	31 December 2004	406.0	384.0	Nil
Great Western Railway Supplemental Pensions Reserve Fund	31 December 2004	49.6	48.6	Nil
Great Western Railway Salaried Staff Widows' and Orphans' Pension Society	31 December 2003	8.2	9.0	£103,000 [1]

[1] per annum for 10 years from 1 January 2005

The remaining schemes have liabilities of less than £0.5m.

The material schemes have been reviewed as at 31 March 2007. Given the nature of these schemes and the obligations on the Department, and because the first two funds are in surplus for these schemes, no *FRS 17* disclosures are included for this year or prior years. Any future funding obligations form a contingent liability for the Department.

The third fund shown above, the Great Western Railway Salaried Staff Widows' and Orphans' Pension Society, was valued at 31 December 2003. The market value at that date was £8.172m. The market value of assets was estimated as approximately 91 per cent of the corresponding value of the accrued liabilities (after allowing for future salary increases). In this calculation, it was assumed that the investment return on existing assets would be 4.75 per cent. Contributions of £0.1m were made in the year. The ongoing funding cost of the scheme for future years will be met by the Department, and has been included as a provision within the accounts.

The fund was closed to new members in November 1948. It provides a pension on the death of a member to his wife at the date of his retirement. If a member's wife pre-deceases him, his contributions are returned without interest.

40 Post Balance Sheet events

Change of Accounting Officer

Sir David Rowlands retired as the Department's Permanent Secretary and Accounting Officer on 31 May 2007, and has been succeeded by Robert Devereux.

Authorised for issue

These Financial Statements are laid before the Houses of Parliament by the HM Treasury. *Financial Reporting Standard (FRS) 21* requires the Department to disclose the date on which the accounts are authorised for issue. This is the date on which the certified accounts are despatched by the Department to the HM Treasury. The authorised date for issue is 2 July 2007.